

INTERNATIONAL MONETARY FUND

#4 Minutes of Executive Board Meeting 79/153

FILES

10:00 a.m., September 7, 1979

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors

S. Y. Cross

S. D. Deshmukh

L. Dini

B. J. Drabble

F. Garcés

A. Kafka

G. Laske

F. G. Mogae

J. Muns

W. S. Ryrie

Alternate Executive Directors

M. Yeganeh

D. E. Syvrud

R. De Beckker, Temporary

E. Eramudugolla

C. P. Caranicas

D. Lynch

K. A. Al-Eyd

Y. A. Nimatallah

S. Siwatibau

G. Winkelmann

A. Nagashima

T. Aulagnon

S. Kiingi

A. Buira

A. Alfidja

T. de Vries

L. Price

G. Blöndal

R. J. Lang

L. Van Houtven, Secretary
C. M. Kirkpatrick, Assistant

1.	Tanzania - 1979 Article IV Consultation	Page 3
2.	Greece - 1979 Article IV Consultation	Page 11
3.	Executive Board Work Procedures	Page 21
4.	Fund's Financial Position - Review	Page 26
5.	Amendment of Rules and Regulations - Transmittal to Board of Governors	Page 26
6.	Latin American Bank Federation (FELABAN) - Thirteenth Meeting of Governors - Fund Representation	Page 26
7.	St. Lucia - Membership - Governors' Vote	Page 26
8.	Executive Board Travel	Page 27

Also Present

African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; E. L. Bornemann, C. V. Callender, B. Karlstroem, R. L. Sharer. European Department: A. Pfeifer, Deputy Director; R. J. Hides, P. Holden, G. Tyler, C. Williams. Exchange and Trade Relations Department: E. Sturc, Director; D. K. Palmer, Deputy Director; E. H. Brau, M. Dakolias, H. W. Gerhard, S. Kanesa-Thasan, S. Mookerjee. IMF Institute: A. Liyumba, Participant. Legal Department: G. P. Nicoletopoulos, Director; P. R. Lachman, A. Silard. Research Department: C. F. Schwartz, Associate Director and Director of Adjustment Studies. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat, M. K. Chamberlain, G. Djeddaoui, K. S. Friedman, J. A. Kay, E. C. Shinn, A. Wright. Treasurer's Department: R. J. Familton, Deputy Treasurer; D. Williams, Deputy Treasurer. Personal Assistant to the Managing Director: R. G. Ware. Advisors to Executive Directors: C. Bouchard, A. K. Mullet. Assistants to Executive Directors: C. J. Bailey, C. Chipeta, A. B. Diao, L. E. Escobar, E. P. Fine, J. U. Holst, M. A. Janjua, W. A. Kabli, G. B. Lind, S. Micossi, R. E. Myers, V. K. S. Nair, J. R. Novaes de Almeida, P. Peroz, B. H. Potter, M. Shadman, A. van der Hal, A. van 't Veer, M. A. Wasfy, K. K. K. Wee, P. Wichert, T. H. Williams.

1. TANZANIA - 1979 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1979 Article IV consultation with Tanzania, together with a proposed decision concluding the 1979 Article XIV consultation with Tanzania (SM/79/228, 8/21/79). They also had before them a report on recent economic developments in Tanzania (SM/79/229, 8/27/79).

The staff representative from the African Department said that the authorities had cleared their payments arrears through the end of February 1979. The staff report had mentioned that arrears had been cleared through the end of December 1978.

Mr. Mogae made the following statement:

I would like to thank the staff for an excellent analysis of past and prospective economic developments in Tanzania. I am in general agreement with the thrust of the staff appraisal. Therefore, I shall focus my attention on a few policy issues.

In 1978, the economy expanded at a rate that compares well with the average real growth rate of 4.8 per cent per year since 1967. In spite of a 3.1 per cent decline in the output of nonfood crops, real GDP is estimated to have increased by 5.6 per cent in 1978. This performance is largely attributable to a rapid expansion in the output of foodcrops, induced by favorable producer prices and by the output of public administration, which was facilitated by a substantial increase in public expenditure.

The disappointing performance of the nonfoodcrop sector was due to a number of structural and temporary factors, such as adverse weather conditions and lower world market prices for coffee. I need not explain here the adverse circumstances affecting individual crops, as the staff has ably explained them on pages 10 and 11 of SM/79/229. Major problems that are common to most of the nonfoodcrops appear to reflect inadequacies in price incentives, investment, transportation and marketing systems.

In other sectors, the modest expansion in the output of manufacturing industries in 1978 resulted inter alia from shortages of inputs, managerial cadres, and skilled manpower. The depletion of diamond reserves adversely affected the output of mining. In transport and tourism, output was impaired by port congestion, a lack of adequate skilled labor and spare parts, and, above all, flooding on the railway line.

On account of problems of a structural nature and anticipated cutbacks in imports--which will adversely affect domestic production through a reduction in inputs--it is estimated that real GDP in 1979 will grow at a rate in the range of 3-5 per cent. This low rate of

growth in real GDP will leave little room for improvement in the standard of living of the country's population, which is growing at an average annual rate of 3.3 per cent.

The sluggish performance of the real sector, in conjunction with lower export prices for coffee, was largely responsible for the reduction in export earnings from SDR 458 million in 1977 to SDR 370 million in 1978. On the other hand, the volume of merchandise imports increased substantially following the import liberalization measures of 1977, while net service receipts stagnated. Thus, despite an increase of 16 per cent in transfers and capital receipts, the overall balance of payments deficit rose from SDR 128 million in 1977 to SDR 232 million in 1978, and gross international reserves declined to SDR 131 million, or the equivalent of 1.8 months of 1978 imports.

The rapidly deteriorating external position unfortunately necessitated delays in payments for imports from October 1978, and there resulted an accumulation of payments arrears, which amounted to SDR 121 million by the end of last March. It is the intention of the Tanzanian authorities to avoid a further increase of payments arrears and to limit recourse to short-term external borrowing from commercial banks.

The overall budgetary deficit as a proportion of GDP also widened in 1978/79, reaching about 10.4 per cent--compared with 4.7 per cent in 1977/78--because expenditure grew faster than revenue. Despite the austerity measures introduced in November 1978, government expenditure increased by 42 per cent, reflecting additional programs, some of which had not been anticipated. Total revenue increased by 17 per cent on account of larger grants, increases in indirect taxes, and a higher level of import trade. The enlarged deficit was financed mainly through borrowing from the domestic banking system, resulting in an expansion of net credit to the Government. Net credit to the private sector increased by 40 per cent, and overall net credit rose by 60 per cent. In view of this, the authorities are reducing expenditures and taking additional revenue measures. A number of indirect taxes have been increased, and new ones have been introduced.

The authorities strongly believe in allocating credit through planning so as to facilitate their social objectives. Therefore, no increases in lending rates have been contemplated apart from the one percentage point increase that took effect last year. As far as encouragement of savings is concerned, the authorities feel that the level of income and the availability of banking institutions are more important determinants in their particular situation than the level of deposit rates. Nevertheless, the authorities do not rule out the adoption of a more flexible interest rate policy, in addition to the longer-term maturity deposits that were introduced last year.

Concerning the objectives of the stabilization program of last April, it is expected that the growth target will be attained. The

other targets will prove difficult to attain in the light of developments described in the present staff papers, including recent increases in domestic credit expansion and in the prices of imported goods and of petroleum products. Measures aimed at invigorating the export sector that have been introduced this year include increases in producer prices of 19 per cent to 25 per cent, the channeling of more external loans into production for export, and the devaluation of the Tanzanian shilling by 10 per cent last January. The authorities recognize that these measures are not likely to be effective unless they are accompanied by measures to improve the transport and marketing systems. In the authorities' view, the effectiveness of these measures in the short run is likely to be limited by the small supply responsiveness of tree crops.

The peg of the Tanzanian shilling to the SDR was replaced by pegging to a basket of currencies of the country's major trading partners on the date of the devaluation. This action was taken *inter alia* to avoid an appreciation of the currency, and to buttress the effects of both the fluctuations in individual currencies and the disruptive effects of discrete changes in the exchange rate.

Finally, regarding the restriction of import licenses early in 1979 in the wake of rapidly declining reserves, I would like to reiterate the assurance of my authorities that this is a temporary measure and that the system will be liberalized as soon as the external position improves.

Mr. Price remarked that Tanzania was clearly experiencing serious economic difficulties, some of which had been inevitable following the major military expenditures over the previous year. The country's discouraging performance thus far under the one-year stabilization program approved in April 1979 would tend to postpone both a return to economic stability and agreement on a long-term program aimed at fundamental restructuring.

The present difficulties in Tanzania stemmed from deep-rooted weaknesses in the structure and management of the economy as well as from the economic consequences of more recent events, Mr. Price commented. The use of central planning was considered appropriate by the Tanzanian authorities, but within that framework more attention ought to be paid to the efficiency of the large public sector. A major and growing proportion of GDP at 1966 prices had been devoted to public administration, but in a country where per capita GDP was only SDR 160, it seemed important to avoid devoting an excessive share of resources to such an activity.

With regard to the effects of price and import controls, Mr. Price observed that efficiency in the use of capital and the ratio of exports to GNP had been declining. Since exports were produced mainly by the private sector, a sustained improvement in the balance of payments might require the acceptance of an enhanced role for market pricing.

The immediate danger was a rapid acceleration of inflation. Before the introduction of strict import controls, excessive monetary expansion had caused a deterioration in the current account balance, but it was now reflected in a high rate of domestic inflation. Moreover, the problem would probably be exacerbated to the extent that import controls limited the flow not only of finished goods but of the raw materials and intermediate goods inputs needed for domestic manufacturing. The staff had raised its estimate of inflation from about 14 per cent to 16 per cent for 1979, but his own authorities were projecting a rate in excess of 20 per cent.

In the circumstances, Mr. Price remarked, the key area for adjustment was fiscal policy. Although the plans for the current financial year were acceptable, the fact that the provisional budget provided for a deficit that still amounted to more than 9 per cent of GDP was disappointing. Commitments with respect to military expenditure would doubtless continue to cause problems in the budget, but measures to reduce and firmly control public sector spending—even at the cost of rescheduling some development spending—did seem to be of paramount importance. In that connection, he would support Tanzania's request for Fund technical assistance.

He could accept temporarily the restrictions on imports as part of the stabilization effort, Mr. Price added, but they would have a serious negative impact on domestic production. The sooner fiscal restraint could be achieved, the sooner the authorities could turn their attention to their longer-term policy objective of import liberalization and thereby encourage domestic output.

Although the recent increases in producer prices for export crops were welcome, Mr. Price said, they were actually modest in the context of domestic price developments; hence, further increases in crop prices would be necessary to encourage a substantial volume response. In addition, the exchange rate should be kept under review, and an appreciation of the currency should continue to be resisted. The intention to hold outstanding payments arrears at the May 1979 level and to avoid further short-term borrowing was also welcome.

Although the apparent breakdown of the existing Fund program was regrettable, Mr. Price remarked, the impact of recent events had placed Tanzania in exceptional circumstances. It was to be hoped, therefore, that the authorities and the Fund would continue negotiations with a view either to revising the existing arrangement or to concluding a new one as soon as possible.

Mr. de Vries stated that he was in broad agreement with the staff appraisal, but he would emphasize three points. First, the improvement in the budgetary situation would be marginal: by end-1979 the deficit was to be reduced from 10.4 per cent to 9.2 per cent of GDP. Additional steps were clearly necessary. Second, although the program of self-sufficiency in food production was commendable, it had had undesirable

side effects. Third, while the intention to avoid further increases in arrears beyond the May 1979 level was welcome, there was no indication from the staff concerning either the time frame for clearing the existing arrears or the authorities' ability to adhere to their intention.

He was less sure than Mr. Price about the feasibility of an extended arrangement with Tanzania, Mr. de Vries commented, although if such an arrangement could be concluded it would, of course, be desirable. Similarly, he hesitated to recommend technical assistance for Tanzania, but in general such assistance was useful, especially in the field of tax policy.

Mr. Drabble remarked that he fully agreed with both the staff appraisal and the views of Mr. Price. Given the serious structural maladjustments in the economy, major improvements in the export sector would require a comprehensive medium-term program, such as would be possible under an extended Fund arrangement. Although political developments in the region had exacerbated economic problems in Tanzania, it was necessary to address urgently the factors underlying the current economic situation.

One encouraging element was that the exchange rate adjustment and the increase in producer prices for export crops had evoked a favorable response, Mr. Drabble continued. Also, the social objectives of members had to be recognized, and in Tanzania's case he accepted the ascendancy of parastatal enterprises in many of the productive sectors. At the same time, it was important that those enterprises should operate in a manner consistent with market forces, especially with regard to pricing policies. Although it could not be determined to what extent losses from the parastatal sector had contributed to the overall budget deficit, a strengthening of the pricing policies of public sector enterprises would seem to be an important element in redressing the current financial situation.

The current budget deficit, equivalent to more than 10 per cent of GDP, was clearly not sustainable, Mr. Drabble observed, and the continued use of domestic bank borrowings to finance it would most likely engender a serious acceleration of domestic inflation, especially in view of the tight import controls. Owing to distortions in the pricing policies of parastatal enterprises, it was difficult to determine the true rate of inflation. If anything, the recorded rate was probably an understatement, so that the situation was perhaps even more serious than the staff had suggested.

Commenting on exchange rate policy, Mr. Drabble wondered whether the new peg adopted by the authorities was appropriate, given that there had been since the last devaluation an appreciation against the currencies of all Tanzania's major trading partners except the United Kingdom, which accounted for only 7 per cent of its trade. In conclusion, it was to be hoped that the authorities would undertake the major reforms that would be an important element in a successful negotiation of a comprehensive medium-term program.

Mr. Blöndal remarked that the causes of Tanzania's financial difficulties were clearly the factors cited by the staff: the decline in coffee prices, the existence of transportation bottlenecks, and military operations. The sharp fall in coffee prices toward the end of 1978 had led to a rapid shrinking of foreign exchange reserves. Consequently, the Government had found it necessary to retreat from its exchange liberalization effort by delaying payments for imports, an action that had resulted in a substantial accumulation of external payments arrears.

The 10 per cent devaluation of the currency in January 1979 and the request for technical assistance from the Fund, Mr. Blöndal continued, reflected the serious effort undertaken by the authorities to improve the economic situation. It was to be hoped that that effort would be facilitated considerably by a diminished need for defense outlays in the budget. Those were being financed through emergency tax measures, but taxes had a tendency to remain even if the special causes that had given rise to their introduction disappeared.

Given that many economic difficulties experienced by member countries were related to overexpansionary fiscal policies, Mr. Blöndal commented, he wondered whether more attention ought not to be focused on that problem and additional Fund technical assistance in the fiscal field. Of course, the political element in expenditure policies was often extremely sensitive and rendered Fund involvement difficult. But the existence of a comprehensive system of fiscal control could be a precondition for improving the consistency and responsibility of expenditure policies.

Mr. Syvrud considered that the Fund should maintain close communication with the Tanzanian authorities and, if possible, provide technical assistance to them. In addition, in view of the widespread imbalances in the economy, Tanzania could be a prime candidate for an extended arrangement.

Mr. Dini agreed with Mr. Price and others that the situation of Tanzania had become extremely difficult, particularly in the area of fiscal control. It was not certain, however, whether the fiscal problem was of a technical nature and therefore solvable with the assistance of a Fund technical expert. Certainly the Fund should comply with any request by the authorities for specialized advice in particular areas; however, a Fund technical expert would be restricted in his efforts to resolve the major budgetary problem or to improve expenditure and financial control because of the political difficulties therein.

Mr. Blöndal remarked that, despite the political difficulties referred to by Mr. Dini, in many countries technical improvements in budgetary policy could be a precondition for improvements in other fields.

The staff representative from the African Department explained that a technical assistant had already been stationed in Dar es Salaam to help improve the system of expenditure control, and he would remain there for three months with the possibility of being relieved by another Fund expert thereafter. He himself agreed with Mr. Dini that the budget situation

could not be solved solely with technical advice. The system of reporting statistics to the Treasury was extraordinarily deficient—for example, the parastatal enterprises reported their accounts with a lag of two to three years—and holding the Treasury responsible for budgetary control was obviously difficult in the circumstances. In addition, the technical assistant could do little to overcome the political difficulties that he would encounter. Nevertheless, the staff felt that some assistance could be effective and indeed was vital for Tanzania.

In response to Mr. de Vries' question concerning arrears, the staff representative said that there was currently no specific time within which the authorities planned to reduce existing arrears, although they had stated that they would draw them down as rapidly as possible. However, in any future discussion on the use of Fund resources by Tanzania, the establishment of a specific time frame would be a crucial point.

Replying to Mr. Drabble, the staff representative explained that the parastatal enterprises were not running huge deficits supported by the budget. Rather, when they experienced financial difficulties, they borrowed from the banking system, thereby crowding out other borrowers.

Mr. Mogae agreed with the staff analysis concerning the weak prospects for the Tanzanian economy, but the country's poor performance under the current program had been greatly affected by recent developments in the region as well as by past weaknesses, some of which had already been remedied. It was possible that the devaluation had indeed been neutralized by later developments, and the reduction in the deficit had not been significant; on the other hand, it had not been possible to make greater commitments at the time, and even additional remedial measures would not have solved overnight the cumulative effects of past weaknesses in policy. There had been some response to producer price incentives, but deficiencies still existed and further reforms were necessary.

The Tanzanian authorities would largely agree with both the staff analysis and comments by Executive Directors, and they recognized that it would be necessary for them to cooperate with the Fund in an effort to rectify the economic situation. Still, despite the existence of policy weaknesses, he hoped that Executive Directors could see that external circumstances had helped to aggravate the problems that the country was facing.

The Chairman made the following summing up in concluding the discussion.

My understanding is that the Board has expressed broad agreement with the views contained in the staff appraisal in the report for the 1979 Article IV consultation with Tanzania. Directors noted the sharp deterioration in Tanzania's domestic and external financial position that has been occurring since 1978 and has continued since the Executive Board's discussion and approval of

the first credit tranche and Trust Fund loan program last April. They regretted the breakdown of this program. They noted that, while the present severe difficulties are substantially related to the military operations in Uganda, they also reflect to a great extent the continuation of certain adverse long-term trends and structural maladjustments in the economy.

Executive Directors agreed that there is an urgent need for the Government to implement comprehensive policies to eliminate the distortions that have hampered Tanzania's economic performance and particularly its exports. Significant further measures need to be initiated aimed at inducing a shift of productive resources toward the external sector, improving the allocation of the country's capital stock, and increasing the efficiency of the parastatal sector. These measures will need to be supported by appropriate policies of domestic demand restraint. The measures introduced earlier this year, and the revenue measures included in the 1979/80 budget, will need to be supplemented by tight control on government expenditure in order to reduce the unsustainably large government deficit. Domestic credit expansion will also have to be controlled.

The Executive Directors noted that, given the magnitude of the present imbalances, adjustment policies will have to be applied on a sustained and comprehensive basis. They also noted that the appropriateness of the exchange rate would have to be kept under continuous review. They hoped that the authorities would adopt comprehensive measures in a medium-term framework, and that this could be supported by further use of Fund resources.

Executive Directors welcomed the authorities' intention to liberalize the foreign exchange allocation system when the balance of payments difficulties are alleviated. They welcomed Tanzania's recent request for technical assistance in the fiscal field.

The Executive Board then took the following decision concluding the 1979 Article XIV consultation with Tanzania:

1. The Fund takes this decision relating to Tanzania's exchange measures subject to Article VIII, Section 2 and in concluding the 1979 Article XIV consultation with Tanzania, in the light of the 1979 Article IV consultation with Tanzania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Tanzania continues to maintain restrictions on the availability of exchange for imports, tourist travel, and remittances to relatives abroad, as described in SM/79/229. The Fund hopes that these restrictions will be removed as soon as the balance of payments situation allows. In the meantime, the Fund grants approval for their retention until

August 31, 1980. Tanzania has incurred external payments arrears since October 1978. The Fund notes the intention of the authorities to avoid further increases in arrears beyond the end-May 1979 level and urges the authorities to reduce and eventually eliminate them as soon as possible.

Decision No. 6251-(79/153), adopted
September 7, 1979

2. GREECE - 1979 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1979 Article IV consultation with Greece, together with a proposed decision concluding the 1979 Article XIV consultation with Greece (SM/79/207, 8/2/79; and Sup. 1, 8/29/79). They also had before them a report on recent economic developments in Greece (SM/79/217, 8/20/79).

Mr. Caranicas made the following statement:

I would like to thank the staff for its excellent reports for the Article IV consultation with Greece. The discussions with the Fund mission were frank and candid, and my authorities feel that they helped both sides to gain a better understanding of the Greek economy.

My authorities have no substantive difficulties with the considerations developed by the staff in its appraisal, and therefore I will attempt in my introductory remarks to broaden somewhat the perspective provided by the staff, particularly in view of Greece's recent signing of the Treaty of Accession to the European Community.

As explained in the staff report, after the 1973-74 recession, expansionary monetary and fiscal policies led to rapid growth of the economy in the period 1975-78, when real GNP rose at an average annual rate of 5.4 per cent, or more than the rate attained by most other European countries. In 1978, real growth in Greece, at 5.9 per cent, was among the highest in the OECD area. During this period, the rapid rise in real disposable income led to an increase in the share of wages and salaries in national income, and to a marked expansion in private consumption. In 1978, in a setting of increasing employment, real wages and salaries rose by 7.5 per cent; agricultural incomes and pensions also rose rapidly.

It is worth noting that the rapid growth of GNP in 1978 did not lead to balance of payments difficulties. Foreign exchange earnings from exports of goods and services registered another large increase, despite the maintenance of some quantitative restrictions on Greek exports in Europe and a slowdown in the growth of imports by oil-producing countries in the Middle East.

The economy is now operating near full employment, although a significant number of Greek workers have returned from Western Europe. In the urban sector, the rate of unemployment is less than 2 per cent; in some industries and even in agriculture labor shortages have emerged, leading to an inflow of foreign workers. It is recognized that such shortages are indicative of overheating in the economy, which no doubt contribute to the persistence of inflation.

While the economy has been expanding, progress in dealing with the economy's structural problems has admittedly been rather limited in recent years. Two of the main weaknesses are the pattern of private investment--which is heavily concentrated in construction--and the overexpansion of consumer spending. Public sector investment, as well as foreign investment in manufacturing, declined for the third consecutive year in 1978. While lagging productive investment is a malaise that has affected most Western economies in recent years, Greece is faced with particular problems in that area. Since it is handicapped by a small domestic market, Greece must offer special incentives and a climate of relative stability in economic conditions in order to attract foreign investment. In recent years, the frequent introduction of new measures regarding prices, taxation, credit, and import policies may not have been conducive to foreign or domestic investment. However, with the removal of uncertainties surrounding Greece's accession to the EC, the climate for investment should improve. In this regard, it is difficult not to be optimistic about medium-term prospects, given Greece's fast growth during the 1960s and 1970s.

Reducing the high rate of inflation has been accorded high priority in the economic policies of the Government over the past year. Because the authorities are aware that only with lower rates of increase in costs and prices will it be possible to achieve a higher expansion of industrial investment, both fiscal and monetary policies have been set on a more restrictive course. Measures have also been introduced to curb unjustified price rises.

Fiscal policy, which in the years since 1975 was designed to give substantial stimulus to the economy, was tightened earlier this year and again in August. In June 1978, budget expenditures were curtailed, and in 1979 some subsidies were eliminated, while others that had been extended through the Consumers Goods Account were incorporated into the budget. In addition, public utilities charges have been increased. These measures and tax reforms designed to raise revenues and reduce tax evasion should help to improve the efficiency of the economy. The estimated net borrowing requirement of the Central Government is expected to decrease by more than 10 per cent in 1979, despite an increase in budget expenditure of 25 per cent.

In view of the persistence of inflation at a rapid pace, in August the Greek authorities introduced additional measures designed to cool off the economy. These measures, which are described in SM/79/207, Supplement 1, comprise monetary, fiscal, price, and incomes policies, and they prove the determination of the authorities to slow down the price-wage spiral and to protect the present competitiveness of the economy.

In the first half of 1979, the rise in imports outpaced that of exports--which rose by some 38 per cent over the corresponding period of 1978--with the result that the current account deficit rose to \$1,356 million, compared with \$873 million in the first half of 1978. For the year as a whole, the current account deficit is likely to exceed \$1,600 million, compared with \$1,250 million in 1978, necessitating a higher level of borrowing from abroad than was anticipated.

Flexibility in the conduct of exchange rate policy has been very much in the minds of the monetary authorities because of the uncertainties in the near term with regard to economic trends in the EC countries--the destination of more than 50 per cent of Greek exports are destined--and the vulnerability of Greece to external economic developments. However, foreign indebtedness remains comparatively low, with the debt service amounting to the equivalent of 8 per cent of exports of goods and services.

Mr. Winkelmann said that he could support the views expressed both by the staff and by Mr. Caranicas, who had outlined the major economic problems of Greece in terms of the rate of inflation, the current account deficit, and the restructuring of the economy that would be necessitated by the accession of Greece to the European Community. The measures taken against inflation, including reductions in the budget deficit, the growth of the monetary aggregates, and domestic demand, were welcome. The Government should be commended for its willingness to pursue somewhat unpopular policies to reduce tax evasion and to moderate wage increases.

Although the current gradual approach might not serve to reduce the rate of inflation significantly, particularly in the face of oil price increases, Mr. Winkelmann continued, he would not recommend more drastic action. If the current measures were successful, the budget would be tightened, and with less reliance on central bank borrowing the growth of the money supply would be reduced. As the scope for wage increases narrowed, there might be a more general realization that excessive wage demands would produce unemployment.

The balance of payments deficit was not alarming, Mr. Winkelmann remarked, because it was being financed by capital imports. Nevertheless, he wondered whether import taxes on luxury items were an appropriate instrument for reducing the deficit. There was a tendency for such taxes to be applied later to other items, and that could disturb the appropriate allocation of resources.

With respect to the restructuring of the economy, Mr. Winkelmann welcomed the raising of interest rates as a step toward encouraging a competitive manufacturing industry and enlarging the domestic capital market. The aims of reducing the inflation rate and simultaneously encouraging investment posed a dilemma, but investors might be willing to take risks on the new markets that would be open to them after Greece's accession to the European Community.

Mr. Lynch observed that the Government's demand management policy and its effects in the fiscal, monetary, and exchange rate fields testified to the willingness of the authorities to institute courageous changes in response to emerging problems. He could agree generally with the staff appraisal, but he assumed that the deficiencies seen by the staff in Greece's economic policy had been remedied at least in part by the recent package of measures. The authorities had perhaps gone as far as could be expected at present.

He wondered what impact Greece's entry into the European Community, might have on the agricultural and industrial sectors, Mr. Lynch said. The potential for the development of agriculture seemed considerable, but the application of EC prices to agricultural products was expected to add 5 per cent to the consumer price index, and the inflationary impact might weigh heavily against the benefits to be derived in other directions. Concerning industry, the fact that wages in Greece were still 30-40 per cent below the EC average afforded Greece an advantage that it should try to retain in sizable part while restructuring the industrial sector. Unfortunately, the rapid increase in Greek wage rates in recent years had contributed to a low level of industrial profits, which in turn had discouraged investment in manufacturing, as had uncertainties associated with Greece's entry into the European Community. On the other hand, various countries--Ireland was one--had demonstrated that with suitable incentives they could develop a large export trade even with a small home market. Confidence might perhaps be restored by a wide-ranging industrial development program geared to the large EC market. There should at least be opportunities to attract foreign investment for export-oriented industries.

Mr. Al-Eyd observed that the expansionary fiscal and monetary policies that had been implemented by the authorities in the wake of the 1974 recession through the middle of 1978 had achieved their purpose. The average annual rate of growth had been 5 per cent; unemployment had been at a low level, with certain sectors of the economy even experiencing labor shortages; exports had been increasing at a healthy rate, and pressure on the balance of payments had been reduced by workers' remittances. The authorities' willingness to allow the drachma to depreciate in effective terms, together with the introduction of preferential interest rates and other incentives to encourage foreign workers to place deposits with Greek banks, had been instrumental in keeping the current account deficit at a manageable level.

The greatest difficulties faced by the authorities, Mr. Al-Eyd continued, were inflation and the rapid rise in average wages, which had

contributed significantly to a decline in profits. The transitional restructuring of the private sector and the concomitant slow growth in manufacturing industries also posed long-term problems. One encouraging aspect was that the economy did not appear to be suffering from stagnation: unemployment was at a low level, and there were no signs of capacity underutilization. Consequently, the authorities had room for maneuver in their monetary and fiscal policies without fear of creating unemployment.

As to incomes policies, Mr. Al-Eyd commented that he was not optimistic, in view of the labor shortages in some industries and in agriculture. However, the competitiveness of the country's exports could not be maintained by action on the exchange rate alone, and moderation in unit labor costs would be essential, particularly if the attempts to attract foreign private investors were to succeed. Thus, restraint on the rise of nominal incomes was important, even though it might to some extent conflict with the authorities' objective of achieving a more equitable distribution of income.

Mr. Syvrud said that he concurred with the staff appraisal, except with regard to the causes of the stagnation of industrial investment. In his view, spending patterns were distorted not only by inflation but also by controls on certain prices. Interest rates had been controlled in order to allocate credits to specific priority areas. The 1978 stabilization program had included the freezing of public tariffs, rent, and clothing and footwear prices, as well as stricter controls on profit margins. In addition, the authorities had actively encouraged increases in real wages by setting minimum wage rates. Since those controls had been an important source of distortion in spending patterns, the lifting of the price freeze in early 1979 was encouraging. While adding to inflation in the short run, the move should help to eliminate distortions in the price system and provide some stimulus to investment in the medium term. It would be helpful if the authorities could remove the remaining controls as soon as possible. Although he was concerned about active government intervention to force wages above what market conditions would indicate, he was even more concerned about the staff's suggestion on page 12 of SM/79/207 that the authorities should consider more direct measures to limit the increase in wages; the Fund ought not to encourage members to indulge in additional controls.

The appropriate course for the Greek authorities, Mr. Syvrud considered, would be to maintain the restrictive stance of fiscal and monetary policies and make the maximum effort to contain public spending and the public sector borrowing requirement so as to minimize the credit squeeze on the private sector. Finally, with the liberalization of prices, the emergence of capacity shortages in a number of industries, and the entry of Greece into the European Community, there should be some scope for a recovery in industrial investment.

Mr. Aulagnon remarked that the policies adopted by the authorities since the 1974 recession had largely been successful. The rate of growth of real GDP during the period had been satisfactory; the current

account deficit had been maintained at a reasonable level; the economy was now operating at full employment. Those achievements had been brought about by expansionary policies, which had been fully justified at the time of their introduction. However, the authorities were aware that the continuation of those policies would endanger the fundamental equilibrium of the economy. They had implemented measures that would unavoidably restrict the rate of growth in 1979--and perhaps thereafter--but should at the same time restore conditions conducive to a more balanced and sustainable medium-term growth pattern.

The possibility that the 1979 budget deficit might exceed that of 1978 should not be a source of concern, Mr. Aulagnon said. The projected 1979 deficit would still be manageable, and the authorities were aiming not at a reduction of the deficit per se but rather at restraint on the economy. However, he had doubts about whether the targets adopted for the growth of currency in circulation and the expansion of credit to the private sector were fully consistent with a significant reduction in inflationary pressures. The authorities should examine their fiscal and monetary policies with a view to moderating the rapid rise in nominal wages, which had been the main component of demand pressure and had unfavorably affected the profitability of investments in most of the industrial sector. More attention should be devoted to maintaining an adequate level of profits in order to enhance productivity in export-oriented sectors and improve the growth potential of the economy. The recovery of profit margins would also help to attract additional private funds, especially from nonresident Greeks.

Mr. de Vries said that he welcomed the entrance of Greece into the circle of EC countries, a move that represented a challenge both to Greece and to the EC itself. The economic situation in Greece had been favorable, especially the growth of exports, which in 1978 had been three times the estimated rate of growth of Greece's foreign markets. The two main negative factors were the presence of excess demand--and hence inflation--in the economy, and the lack of industrial investment. Inflation often led to devaluation, erosion of profit margins, and "stagflation"; there was a danger of a vicious circle.

Like Mr. Syvrud, Mr. de Vries remarked, he hoped that the authorities would eliminate the remaining controls on wages and prices, which discouraged a high level of investment. However, that action alone would probably not be sufficient. Some further measures had recently been taken to fight inflation, and he wondered how the staff appraised them. Wage policy had little chance of success unless the overheating of the economy was corrected, but then it would be useful. Experience showed that restrictive demand management policies tended to have a much more immediate effect on aggregate demand than on inflation.

Mr. Nimatallah commented that the economic performance of Greece during the previous few years had been mixed. On the one hand, the rate of economic growth, the level of unemployment, and earnings from

tourism had been satisfactory. On the other, agricultural output in 1978 had remained below the level of 1975; inflation had continued to be a serious problem; investment in manufacturing had remained at a relatively depressed level. Those difficulties assumed greater significance in view of the adjustments Greece would have to make in connection with its membership in the European Community.

For a successful transition, Mr. Nimatallah continued, the problems of inflation and low investment should be met with firm measures. An improvement in the rate of productivity growth, which would depend on wage policy, would be important if the EC market were to be beneficial to Greece. To enhance profits and investment, Greece, like many other countries, would have to make sacrifices and accept a slower rise in real wages. A better wage policy combined with the proper fiscal and monetary policies could promote both an acceleration of productivity growth and an abatement of inflation, allowing Greece to compete effectively in the EC market.

Mr. Price said that the recent measures taken by the authorities had been in the right direction. Like Mr. de Vries, he would like to have the staff's assessment of whether the magnitude was adequate.

The new borrowing requirement of the Central Government would still amount to about 3 per cent of GDP in 1979, Mr. Price noted, and he wondered whether that figure was low enough. Given the tight monetary policy, there was still a danger of crowding out private investment. Investment was the key to Greece's successful performance within the European Community, and it was therefore regrettable that public expenditure cuts had fallen so heavily on public investment rather than on consumption. He agreed with Mr. Syvrud that some dismantling of wage and price controls as well as an improvement in profit margins and better control of inflation would be conducive to increased investment. Finally, he wondered whether the staff had any information on the results of the policy of financing more of the new investment by public sector enterprises through bonds rather than through the traditional technique of borrowing from the Bank of Greece.

Mr. Muns commended the Greek authorities on the management of the economy. Although there were imbalances, the situation was not unduly worrisome. The Greek economy still faced problems of lagging investment, erosion of profit margins—partly due to excessive increases in real wages—and preemption by the public sector of available finance. In the light of those problems, it was important to keep an adequate measure of stringency in the monetary and fiscal fields, with a view to reducing the excessive rate of inflation and enhancing the role of private investment.

It would be helpful if the staff could elaborate on its suggestion that the authorities should limit increases in wages more directly, Mr. Muns said. He also wondered how the authorities assessed the short-term impact of Greece's accession to the European Community on such key factors as inflation, unemployment, and investment.

The Deputy Director of the European Department agreed that inflation and low profits were not the only reasons for the distortions in spending patterns; official controls had also been a significant factor. But there was no denying that inflation had played a key role, as shown by the steep rise in the consumption of luxury goods and the boom in construction. It was essential that inflationary expectations be dispelled. In suggesting that a further tightening of financial policies be "possibly combined with an attempt to limit the increase in wages more directly," the staff had had in mind some sort of shock treatment to slow down the inflationary spiral; it did not advocate wage controls as a permanent instrument of policy. The suggestion of more direct action to keep down wage increases had been implemented to some extent by the authorities in their decision to maintain public sector wages unchanged for the remainder of 1979.

In response to a question by Mr. Price, the Deputy Director explained that it was too early to see any results of the new policies regarding the financing of public sector enterprises. As to the prospective effects of the package of policy measures taken in recent weeks, the adequacy of the measures was difficult to assess, partly because the precise details of some of the measures were not available and also because the economic statistics were far from up to date. It had been tentatively estimated that the borrowing requirement of the Central Government would be reduced from 2.9 per cent to some 2.3 per cent of GNP, but that estimate involved some difficult assumptions. All that could be said was that the measures seemed to represent a significant further step in the right direction.

The Director of the Exchange and Trade Relations Department said that the parastatal enterprises, particularly the Agricultural Bank, enjoyed a privileged position in the sense that they had direct access to proceeds from central bank bond issues. Replacing an expansion in the money supply with bond issues—in order to raise funds for development—was an important institutional anti-inflationary measure on the part of the monetary authorities, and one whose political costs were not to be minimized.

Mr. Caranicas observed that the main problems of Greece during the past year had been inflation and sluggish investment. It was to be hoped that entry into the large and highly competitive market of the European Community would enhance the expansion of the Greek market, which was currently in a period of transition. The latest economic policy measures, although somewhat unpopular, had been instituted also with a view to preparing Greece for its accession to the Community.

Increases in real income, which had been promulgated by the Government after 1974, Mr. Caranicas continued, had fostered overconsumption, part of which had spilled over into luxury goods. But the restrictions on imports of luxury goods to which Mr. Syvrud had referred should not be regarded as a first step toward restrictions on other imports. Rather, they were part of the effort to stifle overconsumption, although admittedly a social element was involved.

The economies of Greece and Ireland had many similarities Mr. Caranicas said, and he had appreciated Mr. Lynch's remarks, particularly with regard to the effects of entry into the European Community on Greek agriculture, which accounted for a large share of total Greek exports and almost one third of total employment. With respect to manufacturing and the expectation that membership in the European Community would imply a further opening of the domestic market, the authorities intended to adapt Greek competitiveness and methods to those of the Common Market. He agreed with Mr. Lynch, however, that at present they had gone as far as could be expected in implementing anti-inflationary measures. Although the problems of inflation and sluggish investment were widespread in most industrial countries as well as in Greece, it would be difficult to apply the remedies utilized by the larger countries to Greece.

The fiscal problem, Mr. Caranicas observed, would probably be eased in 1979 and further in 1980, particularly in view of the tax reform and the measures being taken to reduce tax evasion. With regard to incomes policy, while the large increases in wages during the past five years had been justified, a better social equilibrium might now have been reached, and perhaps the time had come for restraint. That view was reflected in the decision to keep public sector wages and salaries constant through 1979 despite the inevitable protests.

Although productivity had not increased substantially, Mr. Caranicas remarked, it was expected that by reducing inflation and modernizing the agricultural and industrial sectors, productivity growth could be accelerated. A problem facing the authorities, however, was that in a situation of almost full employment, employers were disposed to grant wage increases beyond those recommended by the Government.

As the gross borrowing requirement of the Central Government would not exceed 3.9 per cent of projected GNP, Mr. Caranicas noted, it could not be considered excessive. The authorities believed that it was of utmost importance not to crowd out private borrowing. Finally, because Greece was dependent on the world economy, it did not take its economic situation lightly. For the time being the authorities were not unduly worried; the main danger to the economy continued to be the estimated 24 per cent rate of inflation, which had been due to oil price increases and the rapid acceleration of wages and incomes in general.

The Chairman made the following summing up in concluding the discussion:

Most Executive Directors commended the favorable growth performance over the past years of the Greek economy, which is now operating at virtually full employment. They noted that the steady increase in foreign exchange receipts from exports, emigrants' remittances, tourism, and private capital flows had greatly helped to reduce the external constraints on growth. However, many Directors pointed to the limited success achieved so far in moderating the relatively high rate of inflation. They

noted that inflation was causing distortions in the economy, as it often did, and the reduction in profit margins in industry resulting from the rapid growth in costs, and especially in real wages, was thought to be one of the factors preventing the much-needed revival of private investment in the manufacturing sector. Several Directors thought also that it might be appropriate for the authorities to eliminate direct controls and other forms of intervention in the economy that may discourage the growth of productive investment.

Directors welcomed the measures taken since mid-1978 to tighten fiscal and monetary policy, as well as the willingness of the authorities to maintain the competitiveness of the economy by allowing the exchange rate to adjust to inflation differentials. Most Directors also expressed the view that the Greek authorities had been wise to proceed with a further tightening of their financial policies in August 1979 after it had become clear in recent months that the inflationary pressures were not subsiding as had been hoped earlier. In the view of the staff, the precise impact and the adequacy of the recent measures are as yet difficult to assess, although these measures obviously go in the right direction. Many Directors expressed the belief that Greece's prospective membership in the European Community would present a major challenge, since it would require important structural adjustments in various areas of the economy, but at the same time would open favorable prospects for sustained future growth in the economy in the near future.

The Executive Board then took the following decision concluding the 1979 Article XIV consultation with Greece:

1. The Fund takes this decision relating to Greece's exchange measures subject to Article VIII, Section 2, and in concluding the 1979 Article XIV consultation with Greece, in the light of the Article IV consultation with Greece conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund welcomes the elimination of a bilateral payments arrangement with a Fund member since the last consultation and notes the intention of the authorities to terminate the one remaining bilateral payments arrangement with a Fund member before the end of 1980.

Decision No. 6252-(79/153), adopted
September 7, 1979

3. EXECUTIVE BOARD WORK PROCEDURES

The Executive Directors continued from the previous meeting (EBM/79/152, 9/5/79) their discussion of a staff paper on the work procedures of the Executive Board (EBD/79/155, 6/20/79; and Sup. 1, 6/22/79).

Mr. Laske said that Executive Directors should achieve more efficiency during meetings, in order to allow more time thoroughly to prepare for them. Given the scope of the problems and policies discussed, however, it would certainly be difficult to shorten meetings significantly. Time spent discussing country consultations or financial assistance programs should not be curtailed deliberately. Although he supported the suggestion that more decisions be taken on a lapse-of-time basis, he appreciated the option to request a Board discussion if it seemed necessary on a particular item.

Review clauses should be used more sparingly than in the past, Mr. Laske commented. Directors should attempt to reach a more lasting consensus in taking decisions, to as to avoid having issues automatically resubmitted to them under a review clause. In some cases, a review might be necessary, of course.

On the Annual Report, Mr. Laske suggested that Executive Directors should individually review the first draft and provide the staff with written suggestions. The staff could then incorporate those in a second draft that would come before the Board. Such a procedure would eliminate Board discussion of points that could be dealt with bilaterally between the Executive Directors and the staff. The suggestion that the first draft should be discussed in a committee made up of Assistants to Executive Directors was also reasonable.

As to other procedures, Mr. Laske said that he would prefer two rather than four discussions of the World Economic Outlook in any year, with each one about four or five weeks before the Interim Committee met. Minutes of drafting sessions should continue to be made, since Directors often expressed views or took positions that were not reflected in a report itself but were worth recording for later reference. Perhaps the minutes could be shortened by omitting small interventions of a technical nature; in general, however, the minutes were satisfactory.

The suggestion that Directors should make their interventions on country matters in written statements would not necessarily be helpful, Mr. Laske considered, particularly given the time involved in preparing such statements. However, he did not object to the practice for those Directors who wished to follow it. Finally, replacing individual notifications on repurchases, repayments, and purchases by monthly collective notifications would be welcome.

Mr. de Vries stated that, in order to function efficiently as a policy organ, the Executive Board would have to impose upon itself a greater degree of self-discipline. The fact that the Board faced such a heavy agenda at a time when there were no major policy tasks was of special

concern. To alleviate the problem, the Board should set target dates or times for completing discussion of the items on the agenda; failure to meet the targets would signal a need for still tighter measures of self-discipline.

Rather than have the Board spend time in drafting, Mr. de Vries said, perhaps the staff should assume more fully the task of translating the consensus of the Board into a text. Another method of saving time would be to have Directors refrain from intervening if they were in full agreement with the staff, unless they wished to express a special interest in the particular case or country. Generally, policy statements that provided the staff with guidance were justified, although it would be possible to be more concise in that regard as well. In addition, when a Director whose country was on the agenda distributed a written statement, he should speak only briefly, since his statement would already contain the main points.

With regard to the Annual Report, Mr. de Vries observed that the discussion of the first draft had usually been the most important, since at that time most Directors had commented on which issues should be included and how they should be handled. Following that preliminary discussion, a committee could prepare a final draft, which would be presented to the Board.

The use of review clauses, Mr. de Vries said, should be decreased. Perhaps reviews could be dealt with on a lapse-of-time basis, unless the Chairman or staff felt it imperative to resubmit the matter to the Board. It was to be hoped that administrative matters could be handled more by both the Chairman and the Committee on Administrative Policies.

He liked the present system of having two annual discussions of the World Economic Outlook with two "minireviews" in between, Mr. de Vries stated. A policy-oriented approach would be welcome.

As to other procedures, Mr. de Vries commented that he would favor no changes in the minutes. The notification procedure proposed in SM/79/155, Supplement 1 should be accepted. Heavier reliance on committees should be rejected. The format for the tentative schedule was proper and should be followed.

He was attracted by Mr. Al-Eyd's suggestion that items for which there were no major issues to be discussed—including country consultations—could be placed on the agenda under a "special procedure," Mr. de Vries mentioned. However, the Chairman should still deliver a summing up of items handled under that procedure, so that the Board would have expressed itself, but without a discussion. Finally, it might be useful to notify speakers when they had had the floor for ten minutes by using a signal such as a flickering light. While ten minutes might not be sufficient for some items, it would do for most.

Mr. Ryrie remarked that Executive Board discussions often burdened both the Executive Directors and the Chairman with unnecessarily long meetings. More use of the lapse-of-time decision procedure and of written statements might help to remedy the problem. In addition, he would agree with Mr. Whitelaw that there should be informal arrangements for having only a limited number of speakers during Article IV consultation discussions. Other Directors might then refrain from intervening unless they had additional points, although they would retain the right to speak. Moreover, less discussion of a country's internal affairs and more of how its economy related to the international arena--which was the crux of Article IV--might help to shorten the meetings.

With regard to the drafting of the Annual Report, Mr. Ryrie suggested that a three-stage procedure might be useful. First, Directors would submit written comments pertaining to the first draft. Second, the staff would revise the draft in the light of those comments and present it to a committee consisting of Assistants to Directors, while reserving major differences for Board discussion. Third, the draft would be submitted for Board discussion, and any Director would of course be free to comment on it.

Finally, Mr. Ryrie commented, perhaps the Executive Directors should be willing to accept suggestions by the Chairman to break off discussions so that the staff could make proposals. There appeared to have evolved a tradition of extreme tolerance on the part of the Chairman. He personally felt that the Directors should welcome suggestions from the Chairman to end a discussion, in addition to more general encouragement to remain as brief as possible.

Mr. Dini said that he saw few practicable ways to reduce significantly the number and length of Board meetings without weakening the role of the Fund and its effectiveness in meeting its responsibilities. The Fund's dealings with members had become more varied and complex, and that was not likely to change in the period ahead. The suggestions he had heard and those he would offer could make only a small dent in the problem.

The Fund might consider reducing the frequency of consultations with countries that were not confronted with large payments imbalances or did not maintain complex trade and exchange control systems, Mr. Dini continued. Full consultations with those countries could be held every two-and-a-half or three years without prejudice to the surveillance function, although the interval could be shortened at the member's request. He did not consider it desirable to shunt discussion of consultation reports to Board committees. To avoid having too many speakers or too few speakers on country items--including stand-by, compensatory financing and Trust Fund loan requests as well as consultations--the Secretary could experiment with Mr. Mentré de Loye's suggestion to ascertain and announce how many Executive Directors expected to speak. Perhaps that information could be made available one or two days ahead of a meeting, together with the agenda. That procedure could lead to a method of

limiting the number of speakers, as suggested by Mr. Ryrie. However, he could not agree to deal with Trust Fund loan and compensatory financing requests on a lapse-of-time basis. Requests for use of the Fund's resources should be placed on the Board's agenda as a matter of course. Like Mr. Laske and others, he would be satisfied with two comprehensive World Economic Outlook discussions per year, and one or two exchange rate discussions in between as developments warranted.

It would indeed be useful to include in staff papers conclusions or a summary focusing on principal points for discussion, Mr. Dini remarked, although Executive Directors should in no way be limited to those topics. He would not favor a definite time limit on interventions, but self-discipline was clearly in order. Directors should attempt to confine their comments on country items to ten minutes as a guideline; the staff should reply concisely to Directors' questions and refrain from comment on Directors' remarks.

Although some Directors felt that the Board spent too much time on drafting reports, Mr. Dini noted, his own view was that it should spend as much time as was necessary to reach a consensus. After all, the Annual Report and reports to the Interim Committee were documents of the Board, not the staff, and as such had to reflect the collective views and judgment of the Board. The suggestion to have first and second readings of the Annual Report and the Annual Report on Exchange Arrangements and Exchange Restrictions in a committee merited consideration, but it did raise a number of questions. What sort of committee would it be? By whom should it be chaired? He doubted whether there was much scope for requesting written comments by Directors for the first reading. Doing so would increase the amount of material to be read by Directors; furthermore, it was unclear how the staff should treat comments made by a single Director in preparing a second draft, since drafting suggestions were only useful if they had broad support. He also doubted whether many administrative matters could be devolved to a Board committee, since they had become controversial and thus required extensive discussion before agreement could be reached.

The preparation of minutes, Mr. Dini considered, should continue basically unchanged. It was important that Directors' views and those of their authorities should be recorded, and the minutes were the only repository of essential information on how the Fund arrived at its decisions and policies. On a related matter, the time had come to find ways to reduce leaks to the press of confidential Fund documents and Board discussions. He had been disturbed to note in the previous day's Morning Press that the Board's report on the substitution account had been obtained by the press, along with comments on the positions of individual Directors and their authorities. The increasing number of breaches of confidentiality was not only regrettable but potentially harmful; members might become unwilling to express their views in the Board, and decisions could then be taken outside the Board itself.

Further efforts should be made to distribute the Board's work more evenly throughout the year, Mr. Dini said. The practice of preparing work programs and tentative agendas for two to three months ahead, with firm dates for discussions of policy documents, should be continued. He could support the suggestion that notification of repurchases be made weekly or bimonthly. The Managing Director should use his discretion regarding his presence in the Board. Much as he would like to see both the Managing Director and the Deputy Managing Director present on every occasion, he realized that the time consumed by meetings was ever more taxing for them than for Directors. Finally, the Board should explore more fully the possibilities for strengthening the staffing of Executive Directors' offices.

Mr. Nimatallah remarked that there were perhaps five reasons for the long meetings: first, the increase in the number of members had necessitated more Article IV consultations; second, Directors had been presented with an increased number of serious policy issues to discuss; third, additional facilities and easier terms had resulted in more requests for financial arrangements; fourth, the preceding factors had led to greater amounts of administrative work; and, fifth, Directors often had a tendency to be overlong in their interventions. To rectify the problem, the Board might delegate some responsibility to the staff and management for determining which decisions would be taken on a lapse-of-time basis, and for preparing a monthly compilation of notification of repurchases, repayments, and purchases. The Directors, in turn, could ask for fewer reports and provide more written statements. Finally, the creation of additional committees to handle certain issues was to be encouraged.

Mr. Garcés stated that he would oppose many changes in the Fund's formal procedures, because they might imply unnecessary limitations or create further inefficiencies. The staff paper appropriately had not promised any miraculous improvement, since the procedures were already operating fairly smoothly. The best solution lay in the exercise of prudence, voluntary cooperation, reasonableness, and austerity. Still, some positive results might be achieved by relying more on committees, especially for drafting and for administrative matters, and on lapse-of-time decisions. Predesignating speakers for consultations, however, might prove to be unworkable.

With regard to other procedures, Mr. Garcés noted that flexibility in relation to review clauses was important; discussions on the World Economic Outlook should be held twice annually, with perhaps two updating papers; advance information on the number of speakers could make for orderly discussions; and greater use of the Chairman's authority in curtailing lengthy discussions would be gladly accepted. The size of the staff in the offices of the Executive Directors was adequate, although it was important to maintain the quality. Finally, only gradual progress based on cooperation, could be expected in the circumstances.

The Executive Directors agreed to continue their discussion of work procedures in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/79/152 (9/5/79) and EBM/79/153 (9/7/79).

4. FUND'S FINANCIAL POSITION - REVIEW

The Executive Board approves the procedures set forth in EBS/79/428 (7/18/79) (EBS/79/428, Sup. 1, 8/31/79).

Decision No. 6253-(79/153), adopted
September 5, 1979

5. AMENDMENT OF RULES AND REGULATIONS - TRANSMITTAL TO BOARD OF GOVERNORS

The Executive Board approves the letter and draft Resolution set forth in EBD/79/212 (8/31/79) for transmittal to the Board of Governors.

Adopted September 6, 1979

6. LATIN AMERICAN BANK FEDERATION (FELABAN) - THIRTEENTH MEETING OF GOVERNORS - FUND REPRESENTATION

The Executive Board approves Fund representation at the Thirteenth Meeting of Governors of the Latin American Bank Federation (FELABAN) to be held in Guarujá, Brazil, as set forth in EBD/79/211 (8/30/79).

Adopted September 5, 1979

7. ST. LUCIA - MEMBERSHIP - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBD/79/186, Sup. 1, 9/6/79) on the canvass of votes of the Governors on Resolution No. 34-9, effective September 5, 1979, with respect to membership for St. Lucia, approved by the Executive Board (EBM/79/133, 8/1/79) for submission to the Board of Governors.

The Governors' vote on the Resolution is recorded as follows:

Votes in favor of Resolution	374,256
Votes of members not cast	50,356
Votes against	<u>0</u>
Total votes	424,612

Decision No. 6254-(79/153), adopted
September 6, 1979

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/79/268, Supplement 1 (9/5/79), EBAP/79/270 (9/4/79), EBAP/79/271 (9/4/79), EBAP/79/272 (9/4/79), EBAP/79/274 (9/5/79), EBAP/79/275 (9/5/79), and EBAP/79/276 (9/5/79) is approved.

APPROVED: January 28, 1980

LEO VAN HOUTVEN
Secretary

