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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/104

3:00 p.m., August 9, 1982

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

Executive Directors	Alternate Executive Directors
	F. Sarraf, Temporary
	C. Taylor
	J. L. Feito, Temporary
	H. G. Schneider
	P. D. Péroz Temporary
R. D. Erb	C. Dallara
M. Finaish	
T. Hirao	T. Yamashita
J. C. Iarezza	
R. K. Joyce	
A Kafka	J. R. Gabriel-Peña
	F. Yeo T. Y., Temporary
	J. A. K. Munthali, Temporary
G. Laske	
G. Lovato	
	A. B. Diao, Temporary
M. Narasimham	A. S. Jayawardena
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	
	B. Legarda
J. Sigurdsson	
Zhang Z	

L. Van Houtven, Secretary
R. S. Laurent, Assistant

Also Present

Exchange and Trade Relations Department: C. D. Finch, Director; D. K. Palmer, Deputy Director; S. Kanesa-Thasan. External Relations Department: A. M. Abushadi, H. Hartmann. Fiscal Affairs Department: A. M. Abdel-Rahman. IMF Institute: M. Al-Jaser, O. N. Alotabi, Participants. Legal Department: G. P. Nicoltopoulos, Director; S. A. Silard. Middle Eastern Department: A. S. Shaalan, Director; A. K. El-Selehdar, Deputy Director; F. Drees, S. H. Hitti, Z. Iqbal, J. Prust, B. K. Short, G. Tomasson, S. von Post, M. Yaqub. Research Department: W. C. Hood, Economic Counsellor and Director; C. F. Schwartz, Associate Director and Director of Adjustment Studies. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; T. M. Tran. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. El-Khouri, L. Ionescu, G. Jauregui, F. A. Tourreilles. Assistants to Executive Directors: T. A. Connors, R. J. J. Costa, A. Halevi, M. J. Kooymans, W. Moerke, J. R. Novaes de Almeida, Y. Okubo, J. G. Pedersen, G. W. K. Pickering, C. N. Pinfield, D. V. Pritchett, O. Üçer, Zhang X.

1. SAUDI ARABIA - 1982 ARTICLE IV CONSULTATION

The Executive Directors continued from the previous meeting (EBM/82/103, 8/9/82) their consideration of the staff report for the 1982 Article IV consultation with Saudi Arabia (SM/82/131, 7/7/82; and Cor. 1, 8/2/82). They also had before them a report on recent economic developments in Saudi Arabia (SM/82/145, 7/22/82; and Cor. 1, 8/2/82).

Mr. Hirao commented that he was in general agreement with the views expressed in the staff appraisal and would limit himself to several brief comments. First, the Saudi Arabian authorities were to be commended for successfully managing the economy, whose performance had been excellent during a difficult period for the world economy. The prudent fiscal policies pursued by the authorities accounted for much of the good performance. In addition, their responsible policies with respect to oil production had contributed not only to ensuring sustained and balanced growth in the Saudi Arabian economy, but also to stabilizing the world oil market. The oil importing countries continued to owe much to the Saudi Arabian authorities' judicious policies on production and pricing.

Perhaps the most remarkable aspect during the previous year was the sustained growth of the non-oil sector without any increase in inflation, Mr. Hirao continued. Economic growth in the non-oil sector during the previous decade had been concentrated in the services and construction sectors, reflecting the implementation of infrastructure projects. The Third Five-Year Development Plan, by contrast, envisaged a shift from physical infrastructure into productive sectors and domestic human resource development. Reduced reliance on expatriate labor was listed as one of the main objectives, with almost all the growth in non-oil GDP being accounted for by projected increases in the employment of Saudi Arabian nationals. However, SM/82/145 indicated that the growth in real non-oil GDP by over 12 per cent in the first year of the plan, 1980/81, had been substantially higher than the annual target of 6.2 per cent; the high growth had reflected in part the flexible foreign labor policy, whereas the projected growth of the non-oil sector in the plan had assumed strict labor constraints. Could the staff comment on the Saudi Arabian labor policy?

The authorities were to be commended for the prudent pursuit of fiscal policy, the element most responsible for the continued good performance of the economy, Mr. Hirao considered. The authorities had rightly adopted a cautious fiscal stance for the current year, containing the growth in expenditure to less than 9 per cent while projecting a 15 per cent decline in revenue compared with provisional estimates for 1981/82. They were maintaining a flexible attitude toward possible additional expenditure if the revenue prospects improved. The expectation of sustained moderate growth in public expenditure over the medium term appeared reasonable. It was certainly understandable that in view of the uncertainties regarding medium-term oil revenues, the authorities should find it difficult to initiate multiyear expenditure planning at present. He was glad to note that reduced reliance on oil revenues remained a major aim of the Government, and he suggested that the possibility of diversifying revenue sources should be pursued.

The staff paper indicated that there had been sharp fluctuations in the contribution of foreign currency deposits to overall liquidity growth, Mr. Hirao noted. The gap that had previously existed between domestic rates of remuneration on international assets and international interest rates had recently narrowed considerably, a development attributable in part to a decline in international interest rates, along with significant increases in the rates of return on riyal-denominated assets, and in part to increased exchange rate uncertainties. It was noteworthy that with the more growth-oriented approach taken by the authorities, and with the rapid expansion of branch banking by commercial banks, any change in the net return on assets denominated in foreign currencies was likely to lead to changes in the rate of return on riyal-denominated assets, something that would discourage excessive shifts among currencies by commercial banks.

Mr. Legarda said that Saudi Arabia was building in a sensible and cautious way on an exceptionally favorable position. He noted the commitment by the authorities to maintain stability in the price and supply of oil, and their prudent and responsible fiscal and monetary policies. Moreover, their generous foreign aid benefited fellow developing countries; Mr. Nimatallah had cited a figure of 6 per cent of GDP for the previous six years, and the projected percentage for 1982 was higher. One tenth of that percentage would be considered a high figure for industrial countries.

As to the subjects on which the staff and the Saudi Arabian authorities differed, specifically on the need to reduce subsidies, diversify revenue, and plan current expenditure on a medium-term basis, he found Mr. Nimatallah's statement to be persuasive on the side of the authorities, Mr. Legarda went on. He also agreed with Mr. Nimatallah that the need at present was to develop mechanisms to raise other sources of budgetary revenue when it became appropriate to do so in the future, instead of immediately raising taxes at a time when they might not be needed. It would appear that to advocate an immediate raising of other taxes might be less realistic than to advocate mechanisms for introducing such increases if present sources of revenue should begin to taper down. As for the reduction of subsidies in the budget, there was a need to control inflation, and the staff had also mentioned the need to keep in step with the other countries of the Gulf region. He was thus persuaded that a reduction in the subsidies should take place but that, as Mr. Nimatallah had said, it should take place over time. After all, developing human skills that enabled citizens to earn higher incomes took years; meanwhile, to avoid widening the gap between the less fortunate and the more fortunate, the Government should continue the subsidies.

The uncertainties in the oil market made it difficult for the authorities to forecast reliably the behavior of oil revenues, Mr. Legarda observed. In his view, the major objective of domestic financial policy should be to limit public and private expenditure to an amount consistent with the absorptive capacity of the economy. There had been difficulties in that area during the mid-1970s, marked by price surges and supply bottlenecks, but the situation appeared satisfactory at present. The turnaround had resulted not only from the prudent financial policy but

also from the enormous investment in infrastructure during the first two development plans. The successes achieved had enhanced the absorptive capacity of the Saudi Arabian economy, making it possible to build on a much more solid base. In conclusion, the Saudi Arabian authorities were to be commended for their prudent and responsible policy stance and for their generous external aid.

Mr. Lovato remarked that he considered Mr. Nimatallah's statement to be important, especially the firm reiteration of the guidelines that the Saudi Arabian authorities intended to follow during the next few years. They were to be commended in several respects. They had managed the country in a cautious, proper manner. Having concentrated investments on infrastructure projects and removed supply bottlenecks, they had achieved further positive results during the previous year, both in the growth of real non-oil GDP and in fighting inflation. Internationally, they had played a determining role in the oil supply and price system. They had financed multilateral institutions, including the Fund, and, even during a year in which their revenue from oil had been reduced, they had provided a substantial amount of foreign aid to developing countries.

The flexibility and cautiousness of Saudi Arabian economic policy were reflected in the Third Five-Year Development Plan, which gave more emphasis than the previous plan to diversifying the economy, Mr. Lovato noted. The decision to reduce the share of revenue for infrastructure projects and to increase development outlays in the commodity-producing sector seemed to be farsighted in view of the need to reduce gradually the country's dependence on oil revenue. Given Saudi Arabia's small population, the authorities might find it worthwhile to direct development resources to more capital-intensive projects requiring greater skill but a smaller number of laborers.

As for fiscal policy over the medium term, particularly public expenditure, he had noted that the authorities and the staff had differing views on the large fluctuations in the rate of growth of approved expenditure, Mr. Lovato said. He understood why the staff had suggested that the authorities should budget for steady growth in spending consistent with revenue expectations and Saudi Arabia's macroeconomic objectives. Nevertheless, he appreciated the prudent policy of the authorities and their reluctance to accept the staff's suggestion because of the great uncertainty in forecasting oil revenue over the medium term. He did have difficulty in understanding why the diversification of the revenue base had been delayed. Although he agreed with Mr. Nimatallah that there was no need at present for raising additional sources of revenue, he wondered whether the authorities had decided when and under what conditions it would become appropriate to raise other sources of revenue.

The private sector had recently shifted its preference from deposits placed abroad to domestic assets denominated in riyals, Mr. Lovato went on. The staff had maintained that the change contributed to a sounder banking system able to offer better terms. He wondered what those better

terms were since, apart from a description of exchange rate developments, he had found no mention of the interest rates prevailing in Saudi Arabia. Finally, he would appreciate it if the staff or Mr. Nimatallah could discuss Mr. Taylor's suggestion for some strategy on investment reserves in order to combine Saudi Arabia's interests with those of the international community in assuring a stable exchange rate.

Mr. Yeo expressed his gratitude to Mr. Nimatallah for adding to the Board's understanding of the pragmatic considerations underlying the present policies for managing and developing the Saudi Arabian economy, which occupied an important place in the international economic and financial system. Like previous speakers, he wished to commend the authorities for their success in financial management, which had resulted in rapid economic growth with price stability. He also recognized the high value placed by the authorities on maintaining appropriate and responsible external policies. SM/82/131 confirmed that the authorities had pursued prudent financial policies, a responsible policy on oil production and pricing, and the management of the country's financial reserves in a manner conducive to maintaining a stable international environment. He was also appreciative of the authorities' policy of providing generous aid to developing countries and the cooperative financing arrangements made with multilateral institutions, including the Fund. He hoped that those favorable policies would continue to prevail.

As to Saudi Arabia's medium-term policies, he was aware of the authorities' efforts to diversify the economic base to lessen their dependence on the oil sector, Mr. Yeo remarked. As Mr. Nimatallah had pointed out, they had had some success in enhancing the contribution of the non-oil sector to GDP. Parallel to the policy of diversifying production, the authorities needed to broaden the revenue base, a point made by the staff in its appraisal. While agreeing with that approach in principle, he would emphasize that in practice the ultimate success of the attempt to expand revenue sources would depend substantially on the results of current policy efforts to facilitate the establishment of a firm footing for private sector activities in the industrial, agricultural, and services sectors. On that point, he fully agreed with Mr. Nimatallah that the need at present was not for raising additional sources of revenue but rather for developing mechanisms to raise revenue when it became appropriate in future. That approach should also avoid the risk of introducing revenue measures that might be prematurely stifling in a growth-oriented environment. Overall, he broadly supported the staff appraisal.

Mr. Erb commented that, from an international perspective, and also from the perspective of Saudi Arabia's own domestic economic interests, the Saudi Arabian Government continued to follow a prudent and constructive set of policies in the international oil markets, within the domestic economy, and within the international financial markets. Furthermore, the economic choices facing Saudi Arabia were not easy, because during the previous decade the Government had been confronted with sudden large discrete changes. As a corollary, it was sometimes difficult to evaluate the economic decisions taken by the Saudi Arabian Government. In that

connection, there were conceptual and empirical deficiencies in the national income accounting framework if it was used to judge the economic performance of an economy like Saudi Arabia's over a relatively short time, such as five years or so. In other words, a full evaluation of Saudi Arabia's oil market and pricing decisions, as well as decisions affecting only the domestic economy, would have to wait until it was clearer how the international oil markets and the Saudi Arabian economy would evolve. Like other Executive Directors, particularly Mr. Finaish, he would like to think of the Saudi Arabian economic choices by using an asset management framework involving choices between keeping the oil in the ground and investing the proceeds from selling oil either in domestic development or in foreign financial placements.

With respect to oil policies, he agreed with Mr. de Maulde that the Saudi Arabians Government and other oil producers faced difficult decisions entailing judgments about both long-term and short-term market conditions, Mr. Erb went on. As many had noted in the past, the largest economic asset of Saudi Arabia at the moment was its oil-based resources, and for decades to come the well-being of the Saudi Arabian economy would depend upon how the international oil marked evolved. After examining previous decisions on oil pricing and production, he thought that a decision by the Saudi Arabians to allow the price of oil to rise more sharply in 1979 and 1980 than it had in fact done could have had a more detrimental international impact and might well have jeopardized the longer-term demand for Saudi Arabia's oil. By contrast, if the Saudi Arabian authorities were to allow the price of oil to fall too sharply at present, in a few years there might again be a sudden sharp price increase and pressures on Saudi Arabia for additional production. Developments in the world economy could result in a tightening of oil markets and a period of rising real oil prices, or in a further softening of the international oil markets, depending on how supply and demand responded in major consumer countries, as well as on how production fluctuated in major oil producing countries.

With respect to Saudi Arabia's domestic economic policies, the Government had been more conservative than in the past in deciding on the rate at which it would allow domestic expenditure to surge following the recent rise in oil revenue, Mr. Erb commented. He had not been persuaded by the staff and some Executive Directors that the revenue base should be broadened. He agreed with Mr. Nimatallah that, after some time, there might be a need to broaden the revenue base, but it did not appear to be a major issue at present. Nevertheless, he would agree strongly with the staff that greater efforts ought to be made to develop a multiyear horizon in the Saudi Arabian budget process. Mr. Nimatallah had pointed out in his statement that there was already a multiyear horizon in the planning process; however, it appeared to focus mainly on major investment and tended to be separate from the annual expenditure decisions made within the Government. Greater integration between the two might strengthen the planning process for expenditure on development and infrastructure, enhance control over the allocation of expenditure in the short term, and ensure that expenditure was directed at areas in which the need was greatest. Given the major investments in infrastructure, the harsh

nature of the Saudi Arabian climate, and the limited labor force available to maintain the infrastructure, he wondered whether there were good estimates within the Saudi Arabian Government of the kinds of expenditure that would be needed in the near term either to maintain the infrastructure already put in place, or to meet the need for replacements of infrastructure, plant and investment equipment, and vehicle investments. The level of expenditure that might be necessary to maintain the current infrastructure might be higher than currently expected.

With respect to the domestic system of subsidies, he had some sympathy with the reasoning put forward in Mr. Nimatallah's statement, Mr. Erb continued. In comparing the Saudi Arabian strategies for social issues, such as income discontinuity, with the strategies of other major oil producing countries in the region, he believed that the methods used in Saudi Arabia had advantages over straightforward income transfers, many of which were intended to encourage certain types of investment. He would agree with Mr. Taylor, however, that the pricing policies for domestic energy in Saudi Arabia left something to be desired, since the domestic prices of oil and gasoline remained significantly below world market prices.

It was clear from Saudi Arabia's investment policy during the previous seven or eight years that there had been a movement toward greater diversification, not only in the current composition of the portfolio, but also in the composition of assets and the diversification of investment to a greater number of countries, Mr. Erb remarked. What he had missed in the discussion of investment policy was the explicit analysis of the link between the foreign financial assets held by Saudi Arabia and the degree to which those assets would be drawn down if there were a need at some future point to carry out current expenditure policies by using reserve assets. There could be a more explicit link between expenditure policies in the medium term and the degree to which the Government would draw down its reserves to meet unforeseen fluctuations in the current account.

He found the discussion of exchange rate policy in the staff paper interesting but, like Mr. Lovato, he would have liked to see more discussion of the rationale behind the policy, Mr. Erb continued. The riyal was linked to the SDR, and also in effect to the U.S. dollar. He wondered how the exchange rate policy fitted in with Saudi Arabian domestic objectives such as the credit policy and, as Mr. Lovato had said, domestic interest rates. As the financial system became deeper and broader, those questions would become more important.

Finally, it would be helpful in the report on Saudi Arabia, and also in staff reports on other countries belonging to the Gulf Cooperation Council, for the staff to try to put the economic developments within each of those countries within a subregional context, Mr. Erb said. Perhaps the staff could provide Executive Directors with a better perspective on some of the economic linkages that were developing. It would be useful to know what the benefits and costs to each of the economies might be of greater integration in areas subject to discussion under the Gulf Cooperation Council.

Mr. Feito recalled that the Saudi Arabian authorities had firmly committed themselves to devoting the financial resources from oil exports into building a productive and diversified economic base. As a result of their efforts, the oil sector had accounted for less than half of real GDP growth for the five years ended 1980/81. It was encouraging that the authorities were determined to increase further the contribution of the non-oil sector to GDP growth. As it was, the rapid expansion of the non-oil sector had led to substantial increases in its absorptive capacity, whereby inflationary pressures from the supply side of the economy had been minimized. In addition, as pointed out by the staff, the balance between aggregate supply and aggregate demand had been considerably facilitated by the prudent expenditure policies of the authorities. The prospects for the near future pointed to a continuation of the favorable trends in inflation and other economic variables, because of the authorities' adherence to the principle of budgetary balance.

The rapid expansion of the Saudi Arabian banking system had contributed to significant increases in riyal-denominated assets, narrowing the gap between investment rates and high international interest rates and thus discouraging net private capital outflows, Mr. Feito remarked. Furthermore, the Saudi Arabian authorities had achieved substantial progress in developing the country's infrastructure. The strategy for the Third Five-Year Development Plan incorporated a shift toward more productive investment. Thus, resources were being routed to capital-intensive industries like manufacturing and agricultural projects. The plan also called for an increase in the share of investment in education and training, with a view to enlarging the stock of human capital.

Saudi Arabia's oil production and pricing policies had been implemented with a great sense of responsibility and international cooperation, Mr. Feito considered. As pointed out by Mr. Nimatallah, oil production and pricing policies had been consistent with the long-term stabilization of the world oil market and had been intended to serve the interests of both the domestic and the international economy. The maintenance of export prices below those afforded oil exporters until 1981 had contributed to avoiding unfavorable effects on the oil markets and to establishing a unified pricing system.

The balanced budget for FY 1982/83 reflected the cautious attitude of the Saudi Arabian authorities in the face of uncertainties about the future course of oil revenue, Mr. Feito went on. By comparison with the 1981/82 budget, revenue was projected to decline by 15 per cent, while expenditure growth was to be reduced to less than 9 per cent. For the longer term, the authorities recognized that efforts should be made to reduce reliance on oil as an essential source of budget receipts and to broaden the revenue base. Like other Directors, he had found Mr. Nimatallah's comments in that respect to be interesting. He agreed with Mr. Nimatallah that the development of mechanisms to foster private capital formation had to precede the diversification of the capital base.

Saudi Arabia's current account surplus in 1982 was projected to decrease significantly compared with the previous two years, Mr. Feito remarked. However, the authorities expected to continue official foreign aid at a high level in 1982; they were to be commended for a policy stressing a cooperative approach to international affairs and the importance of development aid. Account should be taken not only of the magnitude but also of the nature of that aid, as Mr. Finaish had eloquently pointed out at the previous meeting. Furthermore, as Mr. Taylor had observed, the contribution made by Saudi Arabia to the international community was not limited to its capital inflows but also included the freedom of movement accorded to productive sectors, both capital and labor, as well as to flows of goods and services. In conclusion, the Saudi Arabian authorities had shown considerable skill in managing the economy. The policies adopted had been consistent with the objectives of development planning and flexible enough to cope with the changing international economic environment.

Mr. Sigurdsson expressed broad agreement with the staff appraisal. The papers clearly set out reasons why Saudi Arabia had been more successful in dampening the domestic consequences of the second major oil price increase in 1979-80 than in the aftermath of the first major price increase in 1973-74. He agreed with the staff that the primary factor accounting for Saudi Arabia's good economic performance had been a prudent fiscal policy, for which the authorities were to be congratulated. The staff was also correct in commending the authorities for their responsible policies on oil production and pricing and for their efforts to help stabilize the world oil market.

He joined the staff in its implicit recommendation that the authorities should keep under review the composition of public expenditure, including subsidies, and that they should look into the feasibility of diversifying the revenue base, a move that would help to direct the long-term diversification of the economy in an efficient manner, Mr. Sigurdsson considered. He also believed that the staff had done well to suggest that the authorities might frame fiscal policy in a more medium-term perspective.

The authorities deserved commendation for maintaining the level of assistance to developing countries in the face of falling oil reserves and a decline in the current account surplus, Mr. Sigurdsson commented. In that connection, it would have been interesting to see the institutional and country distribution of the Saudi Arabian aid flows.

The staff commended the Saudi Arabian authorities for their reasonable reserve management and exchange rate policies, Mr. Sigurdsson noted. He joined with some previous speakers in thanking the authorities for their contribution to financing the Fund's operations in particular and, in general, for contributing to orderly financing of balance of payments deficits. Like Mr. Taylor, he would have been glad if the staff had shared some of its thoughts on the subject in a more explicit manner, in view of the international importance of Saudi Arabia's policies.

The Saudi Arabian riyal remained in principle pegged to the SDR, Mr. Sigurdsson observed. At the same time, the Saudi Arabian authorities had sought to preserve a fairly stable riyal/dollar exchange rate. The pursuit of that dual objective had led to a 10 per cent divergence in the value of the riyal from the declared parity. He agreed with some previous speakers that the staff would have done well to provide more explicit comments on the exchange rate arrangements of Saudi Arabia, in particular the dual objective of the authorities. He would appreciate comments by Mr. Nimatallah or the staff on the long-term adequacy of the Saudi Arabian exchange arrangements, in view of the country's dependence on oil and the importance of exchange rates in managing the oil assets in the ground.

The sections on basic data in SM/82/131 and SM/82/145 did not include such fundamental information as population and population growth, the level of GNP in toto and per capita, and labor market conditions, Mr. Sigurdsson concluded. A division of the basic data sections into subsections with clearer headings, a practice customary in many Article IV consultation reports, would have done justice to that important information on Saudi Arabia and to the staff's undoubted expertise in those areas.

Mr. Jayawardena commented that Saudi Arabia was the world's third largest oil producer and the world's largest exporter of oil and natural gas. It accounted for a fourth of the world's recoverable oil reserves. As the economic and political stability of Saudi Arabia was crucial, Saudi Arabia's policies were a matter of concern for the entire world. In that respect, it was heartening to see Saudi Arabia following sensible, moderate policies that would undoubtedly contribute to the stability of the country in the long run.

While in the initial stages the authorities had wished to expand the country's oil and gas capacity, they had subsequently been giving priority to infrastructure and social development, Mr. Jayawardena continued. They had cleared many potential supply bottlenecks and established open trade policies, decisions that appeared to have contained the impact of inflation after the initial impetus of large investments. In the Third Five-Year Development Plan, the authorities had sensibly shifted the emphasis toward diversifying the economy by reducing the share of construction and increasing outlays on industry, irrigation, agriculture, and animal husbandry. It was clear from SM/82/145 that Saudi Arabia had 4.5 million hectares of cultivable land and another 48 million hectares suitable for agriculture, whereas only 500,000 hectares were currently under cultivation. Given the manpower constraints in Saudi Arabia, the best long-term strategy would appear to lie in the development of labor-saving, high-technology industry. As people's educational levels had to be high if they were to absorb advanced technology, the authorities might consider providing extraordinary compensation for the acquisition of skills and learning.

The Saudi Arabian authorities had contributed greatly to the stability of oil prices in the world, Mr. Jayawardena considered. They were to be commended for making a positive contribution to world economic stability. As Mr. Nimatallah had shown, Saudi Arabia's record of transfers of aid to developing countries was most remarkable, particularly when it was remembered that the donor was itself a developing country. Furthermore, by employing expatriates who sent part of their wages home, Saudi Arabia had been of great assistance to many developing countries. It had also supported the Fund and other multilateral institutions in many ways, contributing to the stability of the world monetary and financial system.

The fiscal stance of the authorities had been moderate, like their monetary and credit policies, Mr. Jayawardena continued. As a result, inflation had been contained, aided no doubt by substantial subsidies. The staff had raised a question about diversifying government revenue and modifying subsidies, but the authorities could reasonably prefer to persevere with moderate public expenditure plans and to finance current account deficits by drawing down reserves with the intention of stabilizing the economy with lower dependence on oil over the medium term. After all, Saudi Arabia was a developing country, heavily dependent on a single resource with a volatile future; the sooner the authorities could get out of that straitjacket, the better for the long-term stability of the economy. Finally, he fully supported the staff's commendation of the domestic and external policies of Saudi Arabia.

Mr. Polak said that he would limit his comments to suggestions to the staff about some topics on which it ought to go into greater depth in the 1983 consultation. Naturally, the consultations with Saudi Arabia were of major importance to the Fund. Saudi Arabia was the world's largest exporter of oil; it had a major influence on inflation worldwide; and of all Fund members it was the largest holder of public foreign assets. Recently the authorities had had to deal with major economic problems, admittedly problems of affluence, and they had developed interesting solutions to the problems, including the maintenance of a rapid rate of growth in the non-oil sector and the containment of the inflation that had been raging some years previously. Furthermore, the Fund had given a great deal of technical assistance during the six or seven years since consultations with the country had begun. Accordingly, he would expect the consultation paper to examine carefully all aspects of Saudi Arabian policy for the instruction and edification of the Executive Board, and perhaps of other member countries as well.

Regrettably, he had not been altogether satisfied with the staff papers, particularly with the information on, and analysis of, the external side of the economy, Mr. Polak continued. First, the last sentence on page 10 of SM/82/131 read: "The Saudi Arabian authorities have continued to pursue appropriate external sector policies, characterized by responsible reserve management and exchange rate policies and generous foreign aid to developing countries." He had a strong feeling that the sentence was accurate, and he had no reason to question it, but a reader would be hard put to find any justification for it in the two

staff papers. Similarly, an extremely brief statement on page 8 of SM/82/131 referred to the Saudi Arabian representatives having informed the staff mission that there had been no changes in their policy on foreign assets since the previous consultation. SM/82/145 contained no comment on the subject, merely a table in which the assets were broken down into gold, SDRs, and currency. At the time of the 1981 consultation, the staff paper had also said that there had been no change in policy with respect to the management of official foreign assets. He believed that the staff ought to be able to provide the Executive Board with information on the currency composition of Saudi Arabia's assets.

Second, the staff paper contained a curious description of the Saudi Arabian exchange rate arrangements, Mr. Polak observed. After all, there was a statutory obligation for a country to inform the Fund of its arrangements. In principle, as the staff and Mr. Nimatallah had remarked, the Saudi Arabian riyal was pegged to the SDR. In practice, the riyal was pegged to the U.S. dollar, although at times exceeding the margins of 7.25 per cent relative to the SDR; more specifically, it was probably pegged to some kind of basket of currencies because it was currently depreciating against the dollar. Given the Fund's general interest in exchange rates and its particular interest in the exchange rates of oil exporting countries, he would have liked to see some analysis of the question, and to have learned what goals the Saudi Arabian authorities were pursuing in carrying out their exchange rate policies. While he had no reason to believe that the information contained in the paper was anything other than entirely reasonable, he would have preferred some additional staff analysis on that aspect of policy.

Third, Saudi Arabia provided substantial amounts of foreign aid, Mr. Polak noted. The staff ought to have provided information on the distribution of that aid, perhaps by listing the countries of destination or by distinguishing economic aid from other types of aid; such information was available for all other members. With that information, the Board would have had a better understanding of the economic meaning of the aid, which, as the staff had correctly said, Saudi Arabia generously made available to many countries.

Mr. Joyce joined other Executive Directors in commending the Saudi Arabian authorities for the way in which they had managed their economic affairs during a period that had witnessed major changes in both Saudi Arabia and the world economy. As other Directors had pointed out, the economy had achieved significant increases in non-oil output while making continued progress in reducing inflation, in contrast with the mid-1970s, when large increases in output had been accompanied by sharp price increases. As Mr. Nimatallah had noted, the decline in the rate of inflation had been attributable to the removal of major supply bottlenecks in the economy, particularly in residential construction. Indeed, earlier projects were beginning to bear fruit, and the Third Five-Year Development Plan rightly emphasized investments in productive sectors and the enhancement of human resources. The stability of import prices in riyals, reflecting the strong position of the riyal against many currencies other

than the U.S. dollar, had also contributed to reducing inflation. Morever, the successful demand management policies pursued by the authorities had limited the increase in government expenditure to amounts consistent with the economy's absorptive capacity.

He was impressed by the major contribution that Saudi Arabia continued to make to maintaining stability in world oil markets, Mr. Joyce went on. He agreed with Mr. Nimatallah that a further decline in oil prices could well have severe destabilizing effects for the medium and longer term. As Mr. Nimatallah had pointed out, there was a real danger that a further decline in oil prices might thwart efforts at conservation and inhibit the search for additional oil resources as well as the development of alternative energy sources. In his own country, major cutbacks in exploration and development had already occurred as a result of declining world oil prices and growing uncertainty about the future. He agreed with Mr. Erb's observation that it was difficult to forecast the evolution of real oil prices during the coming decade, but wished to state on his own that the recent price stability was nonetheless welcome. Therefore, he supported Mr. Nimatallah's views on the subject.

He appreciated Mr. Nimatallah's comments on the questions raised by the staff on fiscal issues, notably on the diversification of the revenue base and the reduction in budget subsidies, Mr. Joyce went on. He also appreciated the authorities' view that, at least at present, there was no need to seek out other sources of revenue, although the recent fall in oil revenue pointed to the possibility that Saudi Arabia would need to seek to expand non-oil revenue at some time in the future. A ministerial committee was currently studying the question of subsidies, and he accepted Mr. Nimatallah's comment that it made a great deal of sense to use subsidies to encourage training and education.

The authorities had done well to engage in medium-term planning for investments, Mr. Joyce remarked. He also appreciated the cautious attitude taken by Saudi Arabia toward budget expenditure, given the uncertainty about the future course of oil revenue. Nevertheless, there was a need for forward expenditure planning. He would therefore join the staff in encouraging the authorities to engage in such planning and indeed to be prepared to adjust government expenditure according to possible variations in oil receipts.

He had one question arising out of the switching of deposits to the Saudi Arabian banking system, Mr. Joyce continued. The staff had stated that the switching had occurred because the rates of remuneration on Saudi Arabian deposits had increased via-à-vis U.S. dollar rates. First, how had those high rates of remuneration affected the demand for credit from the private sector? Would lower rates have encouraged greater private investment in non-oil sectors? Second, the staff had stated in SM/82/145 that Saudi Arabian banks had increased their foreign deposits. Did the statement mean that the individual banks were now bearing the exchange rate risks previously absorbed by private sector depositors?

In conclusion, he would like to join other Executive Directors in commending Saudi Arabia for its continued efforts to benefit other less fortunate countries through development assistance, Mr. Joyce remarked. Indeed, the level of foreign assistance had actually been increased despite the recent fall in oil revenues. He would also like to welcome the authorities' commitment that the Saudi Arabian Monetary Agency would pursue a responsible policy in managing its portfolio. The task was important in helping to avoid difficulties in the international financial markets that could arise if large sudden movements in liquid reserve assets were to occur.

Mr. Diao noted that for an oil exporting developing country like Saudi Arabia, one major policy objective was to bring about a broad diversification of the productive base of the economy by taking full advantage of abundant oil revenue. Saudi Arabia had been quite successful in that respect, as could be judged from the results achieved under the Second Five-Year Development Plan and the orientation of the current Third Five-Year Development Plan. Whereas the former had emphasized setting up basic infrastructure and indispensible social overheads, the latter indicated a shift toward more directly productive investments. The stepping up of investment efforts in the productive sectors of the economy was warranted and would undoubtedly contribute to the continuous expansion of the productive base of the economy. Furthermore, the non-oil sector continued to perform remarkably well, despite the deceleration in the rate of growth of non-oil GDP. The slowdown in growth from over 12 per cent in 1980/81 to 10.5 per cent in 1981/82 and to an estimated 9.5 per cent in 1982/83 reflected, among other things, the completion of most infrastructure-related activity and a slowdown in the private sector, especially in housing. With respect to fiscal and monetary policies, he was in full agreement with the staff that the Saudi Arabian authorities were to be commended for the appropriate stance that they had continued to follow. Their stance was conducive to economic growth with financial stability.

Saudi Arabia had played a major role in the international economy, Mr. Diao considered. Indeed, the authorities had acted in a manner responsive to the needs of the international community with respect to recycling. He hoped that they would continue their leadership role. Moreover, the country's performance regarding development assistance had been exemplary, total foreign aid being estimated at $28 billion during the previous six years. It was noteworthy that the aid had been provided mostly in the form of grants and concessional loans. On behalf of the countries for which he spoke, he wished to express to the Saudi Arabian authorities his deep appreciation for their commendable action in the field of development assistance.

Mr. Iarezza congratulated the Saudi Arabian authorities for the sound management of their economy, both internationally and internally. A responsible policy on oil production and prices had given the authorities the opportunity to develop a careful investment plan that, while avoiding inflationary pressures, had sustained the non-oil sectors at a

growth rate of more than 10 per cent a year since the early 1970s. The program had been wisely complemented by a wise import policy. He shared the staff's view expressed on page 5 of SM/82/131 that the well-balanced expenditure policy pursued by the authorities had limited increases in expenditure to levels consistent with the absorptive capacity of the economy. Finally, the Saudi Arabian authorities were to be commended for their commitment to increasing foreign aid.

The Director of the Middle Eastern Department noted that the questions asked by Executive Directors could be divided into four categories: the oil sector, the non-oil sector, fiscal and monetary policies, and the external sector. First, with regard to the oil sector, Mr. Finaish had asked several questions. Regarding the indicators of Saudi Arabia's reduced dependence on oil, it should be noted that, in real terms, the growth rate of the non-oil sector since 1975 had proceeded at a much faster pace than that of the oil sector. However, in nominal terms, there had been only a small change in Saudi Arabia's dependence on oil. That dependence was likely to be reduced during the coming years partly as a direct result of industrial investments, whose production was expected to come on stream beginning in 1983, thus contributing to the growth in non-oil GDP. As to the aims of Saudi Arabia's oil policy, the staff felt that there was no conflict among the three basic objectives. The authorities were considering their interests from a long-run perspective. The country had high proven oil reserves, and additions to reserves in the previous few years had exceeded the level of production. While there might be conflicts among the three objectives in the short term, such as difficulties with striking a balance between the level of prices and the level of output, they did not affect the long-term objective of maximizing oil revenue within the context of a stable market. Regarding oil inventories, it was most difficult to disaggregate the total demand for oil into neat compartments. In any case, in the marketplace, price was determined at the margin; therefore, not meeting a part of demand could have the consequence of accentuating expectations of further price increases and thus a possible increase in current demand. The effective way to remove excessive inventory demand was to eliminate its causes.

A question had been asked about the technical implications for the oil fields of sharply fluctuating levels of output, the Director recalled. That was a technical engineering question and, as a layman, he was unable to say whether such fluctuations would affect the oilfields. However, he was struck by the efficiency with which the oil sector was being run in Saudi Arabia.

With regard to the non-oil sector, Mr. Taylor had noted the deceleration of growth from a high of 12.5 per cent to 9.5 per cent over a three-year period, the Director continued. One of the reasons was that the yearly growth in government expenditure, which had once averaged some 25 per cent, had now been reduced to under 9 per cent. Equally important was the shift in the authorities' investment strategy from infrastructure and housing, which had become virtually saturated areas, to directly productive investments.

Some speakers had asked whether there were any constraints to further economic growth in Saudi Arabia, the Director recalled. The authorities intended to expand their domestic investment only if there were viable domestic outlets. Nevertheless, their choice of policies with respect to manpower could well affect the future growth of non-oil GDP. It was true that the Third Five-Year Development Plan projected an increase in non-oil GDP of 6.2 per cent annually, whereas the country had surpassed that rate by a wide margin during the previous three years. The plan had been formulated on the basis of a virtually stable labor force in which hardly any increase was envisaged. However, the authorities were implementing this policy with a degree of flexibility, and Saudi Arabian labor policy stressed the authorities' intention of raising the average skill level, in view of the move away from housing and highways to more sophisticated investments. During the first three years of the plan, the two areas that had grown most rapidly had been construction and trade, and it had been in those areas that the greatest deviations from the planned targets had occurred. Mr. Schneider had asked about the level of infrastructure investments; Table 3 on page 8 of SM/82/145 indicated that physical infrastucture--which did not include all infrastructure--had accounted for about 50 per cent of expenditure, whereas in the Third Five-Year Plan the figure would fall to 35 per cent.

With regard to fiscal and monetary policies, two questions had been asked, the Director went on. Mr. Finaish had wondered whether a more cautious fiscal policy would be advisable; Mr. Taylor had asked whether the authorities might be acting too cautiously in trimming back government expenditure. The staff had indicated that expenditure policy should be geared to a medium-term outlook, and the staff did appreciate the authorities' difficulties in attempting to plan expenditure in the midst of the uncertainty surrounding the oil markets. The authorities were currently reviewing their policy with a view to changing the composition of expenditure in order to make it more productive. It was a question of judgment whether expenditure had been too high or too low in any particular year. The authorities would need to evaluate the available investment outlets, in the country or abroad, and would also wish to consider whether to increase expenditure to a level that would require financing by running down reserves. If they had no viable investments, they could well argue that government expenditure ought to be reduced, but the question could not be considered in isolation from the options open to the authorities.

On monetary policy, Mr. Laske had raised a question about the growth of liquidity, which was estimated at about 25 per cent in 1981/82, the Director observed. A good part of that growth was attributable to repatriation of capital. Executive Directors should remember that, in Saudi Arabia, government expenditure was the main engine generating monetary expansion. Credit to the private sector essentially came from two sources: the specialized banks extended credit that was regarded as a budgetary item, and commercial banks lent amounts that were relatively small in relation to net domestic government expenditure. Besides moral suasion, the only tool available to the authorities so far had been the reserve requirement. They had informed the staff that, should the situation change, they would be ready to use other tools.

A question had been asked by Mr. Joyce whether the high rate of remuneration now being paid by commercial banks on deposits, which had resulted in increasing the rate on advances by the commercial banks, had also had an impact on private sector credit, the Director commented. The staff believed that, if the high rates had had any impact at all, it had been relatively insignificant. What had been significant had been the decline in housing activity that had resulted from saturation in the housing and construction sectors and had brought about a decline in the demand for private credit. As to bank deposits abroad, the commercial banks in Saudi Arabia would be taking a risk to the extent that they converted deposits denominated in riyals into foreign currencies and invested the funds abroad.

A question had been raised by Mr. Lovato on higher rates of remuneration on bank deposits, the Director remarked. The term "interest rates" did not appear in the staff papers. The limited information available to the staff suggested that the rates of remuneration on riyal-denominated assets had been adjusted upward in the recent past, and had become attractive in comparison with the rates available on international markets.

With regard to the balance of payments and the external sector, Mr. Taylor had inquired whether the staff was in a position to update the balance of payments projections for 1982, the Director recalled. Mr. Taylor had hypothesized that imports might be lower and exports higher than originally foreseen. The staff did have revised forecasts for the 1982 balance of payments, but he wished to emphasize that they were highly tentative and subject to great uncertainty in view of the situation in the oil markets. At present, the staff expected lower export receipts, principally because of lower oil output. Production during the second quarter of 1982 had been about 6.5 million barrels a day. If that level of production were maintained in the third and fourth quarters of the year, the current account surplus for the year might be reduced by some $5-7 billion, while the overall deficit might well reach $4-5 billion instead of the approximately $1 billion surplus projected at the time of the discussions.

As to workers' remittances, examination of data from partner countries demonstrated that in a number of cases the inflows of remittances were not increasing as rapidly as in the recent past, the Director observed. That fact should not be taken as an indication that total remittances were declining, because workers might be sending funds to countries other than their home countries. Nevertheless, he believed that remittances could not be expected to increase at the sharp rate of the recent past. A shift in the countries that received workers' remittances was, however, expected to occur along with the projected change in the composition of labor away from unskilled workers and toward more skilled ones.

A question had been asked on Saudi Arabia's surpluses in the light of Fund surveillance, the Director noted. The surpluses could be regarded as involuntary, for they arose out of the authorities' oil and expenditure

policies. The expenditure policy was designed to ensure that the country developed in line with its absorptive capacity. The oil policy was designed to ensure that an uninterrupted supply would remain available for consumers. The exchange rate was not a tool that would in any way reduce or eliminate the Saudi Arabian surplus.

There had been questions about the link of the riyal to the SDR and the U.S. dollar, the Director recalled. In principle, the riyal was linked to the SDR, but in actual practice it tended to follow the course of the U.S. dollar more closely than that of the SDR. It was true that Saudi Arabia's trading partners were fairly diverse, an argument that might be used for pegging the riyal to the SDR. Nevertheless, the authorities had a special interest in maintaining a relative stability between the riyal and the dollar because of a number of factors. First, the United States was the major source of imports into Saudi Arabia, a large proportion of which were obviously dollar denominated. Second, oil produced in Saudi Arabia was priced in dollars on the international markets. Third, virtually all Saudi Arabian budget revenue was in dollars. Fourth, the authorities intended to maintain a low rate of inflation; the effective appreciation of the riyal in the recent past against currencies other than the dollar had had the effect of lowering the inflation rate in Saudi Arabia.

The staff had little information available about foreign asset management in Saudi Arabia, the Director of the Middle Eastern Department concluded. The staff was aware that there had been no asset shifts to speak of during the recent past, but there had been some diversification with new placements. The staff had only limited data on the flow of funds, official and private, and on the composition, maturity, and currency denomination of Saudi Arabian investments. No information was available beyond what the staff had included in the two papers. In response to Mr. Sigurdsson, he wished to apologize for the inadvertent omission of a figure for the population of Saudi Arabia, which in 1980 had been about 8.4 million. As to the labor market in Saudi Arabia, the limited information available to the staff was contained in Table 6 on page 22 and in Table 37 on page 69 of SM/82/145.

Mr. Nimatallah thanked his colleagues who had spoken on Saudi Arabia, promising to convey their views to his authorities, and thanked the management and staff for the work that they had done. Concerning the questions raised by Mr. Finaish and Mr. Erb, it was indeed difficult for Saudi Arabia to combine all of its oil policies and objectives and to realize them. The authorities were keen to supply the world with enough oil to run the economic machine; that was what they meant by the genuine requirements of the world economy, in contrast to storage and stockpiling. It was not only Saudi Arabia's but also the consuming countries' responsibility to carry the burden of stabilizing prices and supplies. There had been a time when the authorities had resisted allowing unduly high demand for stockpiling to take place, because they had believed that such a development would inflate the price of oil. At

present, stocks had been depleted at the wrong time, just to force prices down when they should not have been forced down. He could understand Mr. Finaish's worry that some other countries were not cooperating with Saudi Arabia in that respect.

The optimal level of revenue for the Kingdom was flexible because the authorities' aim was to develop the country as fast as they could, and they wanted to participate in enriching world civilization as well, Mr. Nimatallah continued. For those purposes they needed revenue not merely on a yearly basis, but also to build up reserves in order to avoid unreasonable fluctuations in revenue. Perhaps Mr. Finaish had been concerned that Saudi Arabia might permit oil to remain in the ground instead of selling its irreplaceable reserves. Nevertheless, as Minister Yamani had once explained, the Saudi Arabians were similar to a baker in a small town with the responsibility of supplying bread, a basic food, and of making sure that the price did not rise so high that people could no longer afford to buy bread. That was why the Saudi Arabian authorities were committed to maintaining price stability. He expressed thanks to Mr. Laske and Mr. Joyce for supporting the point explicitly.

The rate of return in Saudi Arabia should not include merely interest payments but also yield in general, Mr. Nimatallah explained. However, riyal investments in other than financial resources at times fluctuated in value depending on circumstances; there had come a time when it was more productive to invest riyals in certain sectors of the Saudi Arabian economy than to buy dollars and leave them in an account abroad to earn a higher rate of interest. At one time, an inflow of resources into Saudi Arabia had added to domestic liquidity where it had been needed. Nevertheless, the authorities' commitment to maintain a low rate of inflation had led them to prevent capital inflows from getting out of proportion, even in the absence of sophisticated tools of monetary policy designed to insulate the economy from such effects. One of the tools not always used effectively was that of leaving deposits by the Saudi Arabian Monetary Agency in commercial banks when commercial liquidity had to expand and withdrawing deposits from those banks in the contrary case. As the Director of the Middle Eastern Department had noted, the main tool of monetary policy was moral suasion. Bankers in Saudi Arabia paid a great deal of attention to what the Governor of the Monetary Agency told them. He met with them regularly, and they took him seriously when he advised them to do or not to do certain things. In addition, the authorities had available the instrument of changing reserve requirements.

On official development assistance, he was pleased to inform Mr. Polak that all of the aid provided by Saudi Arabia was economic, Mr. Nimatallah went on. Assistance was granted on an ad hoc basis. The Saudi Arabian authorities had a commitment to stand against the expansion of communism in the Middle East, and the country sometimes gave aid designed to stop such expansion in a way that the authorities believed best.

The investment and management of reserves had been working well; the authorities had no intention of changing their responsible policy of first taking into consideration economic and monetary stability in the world, and only then examining a specific rate of return, Mr. Nimatallah remarked. Another objective was to manage the country's liquidity as need be. As Mr. Finaish had mentioned, new placements were being made in various currencies, rather than solely in U.S. dollars. The details of such policies appeared irrelevant to him as long as the objectives were clear and the means of realizing the objectives were left to the managers of Saudi Arabia's resources.

As to whether the Government was following an overcautious fiscal policy, fiscal decisions were being dictated by pragmatic criteria, Mr. Nimatallah concluded. The authorities were not avoiding necessary expenditures. They were maintaining the pace of development, even in the face of declining revenues. Of course, promoting economic development entailed expenditure on such items as maintenance and rent, so that there was a correlation between investment and other current expenditure. The authorities aimed at avoiding unnecessary current expenditure that might trigger inflation. Since they were asking others to control inflation, they should be the first to control it themselves.

After a brief discussion, the Chairman made the following summing up:

Executive Directors generally endorsed the staff appraisal contained in the report for the 1982 Article IV consultation with Saudi Arabia. They highly commended the Saudi Arabian authorities on the conduct of their economic policy. Directors noted that this policy had permitted a high rate of growth to be maintained in the non-oil sector of the economy while at the same time preserving financial stability. Prudent fiscal and monetary policies had prevented the re-emergence of excess demand pressures, while a substantially improved physical infrastructure had allowed an adequate flow of imports. Under such conditions, inflation had not been a problem in recent years.

Directors commended Saudi Arabia's responsible oil production and pricing policies, which had been a prime factor in stabilizing the world oil market under difficult and changing circumstances. They also noted that in 1982 the magnitude of the current account surplus is expected to decline.

Throughout the 1970s the main emphasis of investment expenditure had been on the development of infrastructure and the elimination of supply bottlenecks. Now, under the Third Five-Year Plan, a change of emphasis has been introduced in favor of investment in the producing sector and in manpower training. Directors expressed the belief that this change of emphasis was appropriate in view of the current condition of the world oil market and its impact on Saudi Arabia's oil revenues. The authorities had reacted with caution by budgeting for somewhat lower rates of growth of

government spending in the present fiscal year, although they had retained their firm commitment to the fulfillment of the present development plan targets and to the maintenance of foreign aid levels. Several Directors encouraged the Saudi Arabian authorities to undertake in a medium-term perspective a comprehensive review of the government revenue base and of the composition of the current public expenditures in the light of the Government's overall economic objectives.

The thrust of the Saudi Arabian monetary policy was considered appropriate. The reduced differential between the rate of return in domestic and international credit markets was noted, and the view was put forward that a broader array of policy instruments may enhance the effectiveness of monetary policy in Saudi Arabia, particularly as the domestic banking system becomes more diversified.

On the whole, Directors observed with appreciation that Saudi Arabia had continued to play a most constructive role in promoting international adjustment. In addition to its economic development policies, the principal elements of this stance have been a liberal import policy, an exchange system free of restrictions, a responsible management of external reserves, a flexible foreign labor policy, and a generous provision of foreign assistance to developing countries.

I would like to add my own voice to those Directors who expressed particular appreciation of Saudi Arabia's financial cooperation with the Fund.

2. INTERIM COMMITTEE - AGENDA

The Executive Directors considered a provisional agenda for the Nineteenth Meeting of the Interim Committee of the Board of Governors on the International Monetary System to be held on September 4, 1982, at the Sheraton Centre, Toronto, Canada (EBD/82/186, 7/23/82).

Mr. Kafka noted that the Interim Committee was expected to discuss the World Economic Outlook and the progress made toward the Eighth General Review of Quotas. However, it was peculiar that the Fund had not included a discussion of SDR matters in the agenda, even if there was nothing positive to report. Since the Interim Committee meeting would last only one day, a single substantive agenda point to be called "World Economic Outlook, the Adjustment Process, and Financial Problems" would be preferable to the present arrangement. After all, developments with respect to quotas were to a large extent reflections of the current world economic situation.

In response to a question by Mr. Finaish, the Chairman explained that the meeting of the Interim Committee would indeed last only one day, and the Ministers would be getting together at a luncheon. So that Ministers

would have had a chance to comment on quotas before the luncheon, the topic of quotas had been placed first, and the topic of the World Economic Outlook had been placed immediately after.

The Deputy Managing Director added that the Fund was suggesting that the Interim Committee should begin its work at 9:30 a.m. rather than at 10:00 a.m., in the hope that before Ministers found themselves faced with some form of draft communiqué at the luncheon, they would at least have been able to have a full round of observations on some of the major issues of substance.

The Chairman noted that the discussion of the World Economic Outlook would probably not differ substantially from the discussions held in the Executive Board. As an operational matter, it had been decided to put the question of quotas first in order to launch the discussion before the luncheon.

In response to a question by Mr. Nimatallah, the Chairman explained that each Minister or Governor would be making two interventions, one on quotas and one on the World Economic Outlook. If each speaker made only one intervention, the chances of having all 22 Ministers or Governors commenting in the morning session would be quite small. In addition, it would be rather unpleasant for a Minister who had been unable to speak on the main issue before the luncheon if a draft text written by the staff and management failed to take account of his position.

Mr. Joyce commented that there were two dangers in having only one intervention per Minister. First, each intervention would inevitably be longer, so that there would be fewer speakers before lunch. Second, there was a danger that many Ministers, in addressing the subject of the World Economic Outlook, might not deal specifically with the question of Fund quotas. It was important for there to be a focused discussion on the quota issue at the Toronto meeting. Therefore, he would support the idea of having a discussion on quotas in the morning and a discussion on the World Economic Outlook and other matters in the afternoon.

Mr. Erb supported the current order of the agenda. It would be helpful to break the discussion into two parts.

Mr. Polak expressed agreement with Mr. Joyce and Mr. Erb. It would be a pity to adopt a practice of putting all Ministers' comments into one hodgepodge of statements in which the central points might easily be lost.

Mr. Jayawardena stated that he would go even farther than Mr. Kafka in including the subject of SDRs. His authorities felt that it would be useful to keep the question of SDR allocations on the agenda, although the Fund would have little to report other than to say that a consensus had not been reached. In his opinion, several Executive Directors would like to keep the issue alive.

Mr. Joyce said that one possibility might be to entitle the third item "Fund Matters" covering a) the Executive Board report on the Eighth General Review of Quotas, and b) the Managing Director's report on SDR allocations.

Mr. Sigurdsson supported Mr. Joyce's proposal.

The Director of the Legal Department observed that the term "Fund Matters" might be somewhat too general in the sense that every matter touching the world economy could be considered of concern to the Fund. In the past, the term used had been something like "Fund Policies and Activities." The second topic might usefully be entitled "Report of the Managing Director on SDR Matters." Not only possible SDR allocations but also the future of the SDR would be involved.

The Executive Board then took the following decision:

The Executive Board approves the provisional agenda, as revised, for the Nineteenth Meeting of the Interim Committee and authorizes transmittal of the agenda to members of the Committee. (ICMS/Doc/82/6, 8/13/82).

Adopted August 9, 1982

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/82/103 (8/9/82) and EBM/82/104 (8/9/82).

3. EL SALVADOR - FUND REPRESENTATIVE

In response to a request from El Salvador for a Fund Resident Representative, the Executive Board approves the proposal set forth in EBAP/82/286 (8/4/82).

Adopted August 9, 1982

APPROVED: February 8, 1983

LEO VAN HOUTVEN
Secretary