

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/166

3:00 p.m., December 22, 1982

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

Executive Directors

J. de Groote
B. de Maulde

M. Finaish

T. Hirao
R. K. Joyce

G. Laske
G. Lovato
R. N. Malhotra
Y. A. Nimatallah
J. J. Polak
A. R. G. Prowse
G. Salehkhoul
F. Sangare
M. A. Senior
J. Sigurdsson
Zhang Z.

Alternate Executive Directors

M. K. Diallo, Temporary
C. Taylor
H. G. Schneider

M. Teijeiro
C. Dallara

I. R. Panday, Temporary
T. Yamashita

J. R. N. Almeida, Temporary

C. P. Caranicas
A. S. Jayawardena

T. de Vries
K. G. Morrell
O. Kabbaj
E. I. M. Mtei

L. Vidvei
Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

1. Sweden - 1982 Special Consultation Under Article IV Page 3
2. Dominica - Depository Page 5

Also Present

European Department: B. Rose, Deputy Director; M. C. Deppler, A. Knobl, S. Mitra, H. O. Schmitt. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; G. G. Johnson. Legal Department: G. P. Nicoletopoulos, Director. Research Department: W. C. Hood, Economic Counsellor and Director; C. F. Schwartz, Associate Director and Director of Adjustment Studies. Secretary's Department: J. C. Corr. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, J. Delgadillo, M. A. Janjua, P. Kohnert, P. D. Pérez. Assistants to Executive Directors: H. Alaoui-Abdallaoui, H. Arias, R. Bernardo, L. E. J. Coene, T. A. Connors, R. J. J. Costa, I. Fridriksson, M. Hull, V. K. S. Nair, Y. Okubo, G. W. K. Pickering, D. V. Pritchett, J. Reddy, C. A. Salinas, D. I. S. Shaw, H. Suzuki, A. A. Yousef.

1. SWEDEN - 1982 SPECIAL CONSULTATION UNDER ARTICLE IV

The Executive Directors, meeting in restricted session, continued from the previous meeting (EBM/82/165, 12/22/82) their consideration of the staff report for the 1982 special consultation under Article IV with Sweden (EBS/82/222, 12/3/82).

In concluding the discussion, the Chairman made the following summing up:

Broad agreement was expressed with the assessment of the 15.9 per cent devaluation of the Swedish krona in October 1982 contained in the staff report.

There was general recognition that an appropriate level for the exchange rate is difficult to quantify precisely. Nevertheless, it was considered that, on the whole, the size of the most recent devaluation was not justified by the underlying competitive position and that a lesser move would have been appropriate. Moderation in this respect would have been all the more important in view of the difficult international situation, and of the high risk of protectionism and other defensive responses.

Many Directors considered that the decline of the exposed industrial sector was due fundamentally to the very high level of labor costs and social transfers--which the devaluation was meant to help correct--and to the extremely large size of the public sector, which had now reached some 70 per cent of GDP. The same Directors felt a devaluation in itself would not address these fundamental problems; that without supporting domestic policies it could be dissipated in inflation; and that it could upset competitive relationships. They felt that without a major scaling down of public expenditures and the public sector deficit, a lasting recovery of the industrial sector would remain in doubt. A number of Directors expressed doubts whether fiscal policy was sufficiently tight.

Directors also expressed the view that, given the sizable increases in the money stock in recent years, monetary policy had been too accommodating to ensure external balance. They welcomed the importance that the Swedish authorities now attach to a stricter monetary policy. They noted the encouraging success already scored with new instruments to fund the public sector borrowing requirement by nonmonetary means, and urged the authorities to press on with other initiatives of this nature that are now under consideration.

Directors noted the acceptance by the social partners of a significant reduction in real wages as a necessary concomitant of devaluation. They hoped that an adequate degree of wage and price restraint could be maintained over time; the implied

increase in profits should be channeled as much as possible into productive investment. They noted also that, without an appropriate degree of fiscal and monetary restraint, it would prove difficult to avoid the wage drift that had contributed to undermining the effectiveness of past adjustments in the exchange rate.

Directors considered that the size of the recent devaluation placed the Swedish authorities in a position to eliminate obstacles to competition from abroad. They welcomed the liberalistic approach that, according to the authorities, guided policy, and the emphasis placed on market incentives to promote adjustment. They noted that detailed proposals for the reduction of specific supports to industry are being prepared for inclusion in the budget for 1983/84, and urged that industrial and export subsidies be dismantled as expeditiously as possible.

Directors observed that, with monetary policy directed toward the placing of more public debt with the domestic nonbank sector, and with the improving external current account position in 1983, the krona could well experience upward pressure in the exchange market. Directors noted with appreciation the assurances given by the Swedish authorities that they would not resist such upward pressure. They urged them not to respond by augmenting reserves, or by cutting foreign borrowing prematurely, or by relaxing the monetary policy stance.

Finally, Executive Directors expressed their warm appreciation to the Swedish authorities for their full cooperation in the conduct of the special consultation under Article IV, and in the implementation of effective surveillance by the Fund. They also stressed that the Swedish case was not to be seen as an isolated experience, but as part of a broad and nondiscriminatory application of established surveillance procedures to all members.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/82/165 (12/22/82) and EBM/82/166 (12/22/82).

2. DOMINICA - DEPOSITORY

The Fund accepts the East Caribbean Currency Authority in place of the National Commercial and Development Bank as the depository for all the Fund's holdings of the currency of Dominica under Article XIII, Section 2(a).

Decision No. 7279-(82/166), adopted
December 22, 1982

APPROVED: May 23, 1983

LEO VAN HOUTVEN
Secretary