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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/160

10:00 a.m., December 15, 1982

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

Executive Directors	Alternate Executive Directors
	A. B. Diao, Temporary
	E. M. Ainley, Temporary
	L. E. J. Coene, Temporary
B. de Maulde	A. Le Lorier
	M. Teijeiro
R. D. Erb	C. Dallara
M. Finaish	
	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	D. I. S. Shaw, Temporary
	C. Robalino
	G. Grosche
G. Lovato	
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	
F. Sangare	
	J. L. Feito
J. Sigurdsson	
Zhang Z	Wang E.

L. Van Houtven, Secretary
B. J. Owen, Assistant

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3. Executive Board Travel . . . . Page 46

Also Present

Administration Department: R. Tenconi, Director; M. Russo, Deputy Director; T. Cole, A. Coune, L. Garamfalvi, A. D. Goltz, G. E. Gondwe, J. D. Huddleston, H. Wiesner. African Department: J. B. Zulu, Director; F. d'A. Collings. Central Banking Department: P. N. Kaul, Director; L. M. Koenig, Deputy Director. European Department: B. Rose, Deputy Director; S. Mitra. Exchange and Trade Relations Department: D. K. Palmer, Deputy Director. External Relations Department: N. K. Humphreys. Fiscal Affairs Department: V. Tanzi, Director; R. O. Khalid, Deputy Director. IMF Institute: G. M. Teyssier, Director; A. H. Whitfield. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel, Ph. Lachman. Research Department: C. F. Schwartz, Associate Director and Director of Adjustment Studies; R. R. Rhomberg, Deputy Director. Secretary's Department: A. Wright, Deputy Secretary, A. P. Bhagwat. Treasurer's Department: D. Williams, Deputy Treasurer; D. J. Brown, D. S. Cutler, H. Flinch, D. Gupta, R. B. Hicks, B. Keuppens, J. T. McDonald, T. M. Tran, G. J. Wittich. Bureau of Language Services: A. J. Beith, Director. Bureau of Statistics: W. Dannemann, Director. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, J. R. N. Almeida, C. J. Batliwalla, S. E. Conrado, H.-S. Lee, I. R. Panday, P. D. Péroz. Assistants to Executive Directors: H. Arias, T. A. Connors, R. J. J. Costa, G. Gomel, A. Halevi, J. M. Jones, P. Leeahtam, W. Moerke, Y. Okubo, J. G. Pedersen, J. Reddy, J. Schuijer, D. I. S. Shaw, J. C. Williams, Zhang X.

1. BUDGET - MID-YEAR DISCUSSION

The Executive Directors had before them the following statement by the Managing Director:

1. The purpose of the midyear budget discussion is to provide Executive Directors an opportunity to set forth their views on future work programs and levels of resources for the guidance of management in formulating the Administrative Budget for the new financial year. A useful background paper, EBS/82/210 (11/23/82), presents revised estimates of the Fund's income position for the current year.

2. In the next three months the work program of the departments and their budgetary requirements in the new financial year will be reviewed in the light of the views expressed by Executive Directors at today's meeting. The result will be summarized at the beginning of March in a tentative outline of the proposed budget for FY 1984, which will be issued to Executive Directors for informal consideration and individual comment. The formal budget document will be issued at the end of March for review by the Executive Board on April 15, 1983.

Developments in FY 1983

3. The Administrative Budget for FY 1983, as approved by the Executive Board at EBM/82/47 on April 14, 1982, amounted to $173.80 million. On May 26, 1982, the Executive Board approved a $6.31 million supplementary appropriation on account of the 1982 general salary adjustment, to give a revised budget ceiling of $180.11 million. There have been several other developments since the beginning of the financial year that will affect expenses and for which additional appropriations have yet to be made. These include the adjustment of the remuneration of Executive Directors, Alternates, and Advisors effective July 1, 1982, the establishment of additional resident representative and advisor positions in Mali, El Salvador, and Chile (approved by the Executive Board on July 21, August 9, and September 27, respectively) and the Fund's first-year share of the cost of the interagency resident mission in the East Caribbean (approved by the Executive Board on September 7, 1982). These three developments are estimated to cost about $0.60 million in FY 1983. In addition, it has been decided to purchase one of the main computers in the Fund-Bank Joint Computer Center which is essentially dedicated to Fund work, as the purchase price of $0.94 million was almost equivalent to the total cost for the remainder of the leasing contract, with no allowance made for the residual value of the equipment. The net impact of this purchase on administrative expenses in FY 1983 is $0.52 million because the purchase has eliminated rental costs for eight months. At this stage, it is not proposed to ask for additional appropriations on account of the developments mentioned

above, but rather, as in previous years, to defer such a request until later in the financial year when more precise estimates of total administrative expenses will be available. It might be noted in this connection that an advancement of the date of the next meeting of the Interim Committee from April to February would have little impact on the administrative costs in FY 1983.

Budgetary outlook for FY 1984

4. It is the practice to present the Fund's Administrative Budget in terms of eight broad programs of activity. These eight programs and their estimated relative share of budget resources in FY 1983 are shown in Table 1 for reference purposes:

Table 1. Estimated Distribution of Budget Resources in FY 1983 by Program of Activity

Program of Activity	Per Cent of Total Costs 1/	Per Cent of Total Man-Years 2/	Per Cent of Total Weighted Man-Years 2/3/
1. Activities of the Board of Governors	3.2	2.3	2.1
2. Activities of the Executive Board	10.1	10.1	10.7
3. General Policy Development and Research	10.8	11.3	11.5
4. Operations and Relations with Member Countries	30.6	28.6	30.3
5. Special Services to Member Countries	17.6	15.8	18.1
6. Information and Statistical Services	10.8	10.9	10.0
7. Relations with International Organizations	2.4	2.0	2.4
8. General Support Services	14.5	19.0	14.9
	100.0	100.0	100.0

1/ Takes account of supplementary appropriations approved on account of the 1982 general salary adjustment.

2/ In addition to regular staff, this column takes account of Executive Directors, their Alternates, Advisors and assistants, technical assistance experts, consultants, and temporary staff as shown on page 15 of the Administrative Budget document for FY 1983.

3/ Man-years weighted according to average salary to take account of the difference between work undertaken at varying staff levels.

For purposes of this preliminary review of the outlook for FY 1984, I shall pass over the first two activities and confine my remarks to the remaining programs, numbered 3-8, which essentially comprise the work of management and staff.

General policy development and research

5. During the Annual Meeting last September and in subsequent discussions, considerable concern has been expressed about the need to strengthen the capability of the Fund to meet its responsibilities at a time when the international financial system is under unprecedented strain. Urgent measures are required to strengthen the Fund's capital base and to make other financing arrangements to enable the Fund to help member countries avert serious disruptions in their economies. Work on these matters will be accelerated in the next few months and will continue into the next financial year.

6. Considerable attention has already been given to the work on the Eighth General Review of Quotas in order to be able to reach decisions regarding the size of the overall increase in quotas and the distribution of the increase among member countries early next year. Once decisions have been made on these basic issues as well as on a number of ancillary issues, there will still be some work required to implement these decisions. To assure the Fund's ability to respond to its members' more immediate borrowing needs, high priority will be given to the development of appropriate arrangements for use on a contingency basis in special circumstances.

7. On a related matter, attention will be given to issues concerning the Fund's liquidity position and borrowing. Work in this area will encompass the continuation of the program of borrowing from official sources, including further borrowings from central banks. In addition, preparatory work will be continued for possible borrowing by the Fund from the private market, in the event that it should be required. There will also be periodic reviews of the Fund's liquidity position and the guidelines on borrowing by the Fund.

8. Other policy issues that will occupy the staff, management, and Executive Board in the coming year include a review of the policy on enlarged access to Fund resources in the light of the overall size and distribution of the quota increase; a review of the facility for compensatory financing of fluctuations in the cost of cereal imports; a review of stand-by and extended arrangements; and continuous reviews of the income position of the Fund. Also, the comprehensive review of the Fund's policy in the external debt area, scheduled for next March, will probably generate additional studies on external debt problems for consideration by the Executive Board later in the year.

9. The future role of the SDR in the international monetary system and proposals for improving its usability will receive further attention in the coming year. This work will involve a number of new studies. The Fund conference on the SDR and related matters to be held in March 1983 is expected to provide additional direction to efforts to enhance the role of the SDR in the international monetary system.

10. The World Economic Outlook (WEO) project--embodying a large, coordinated interdepartmental research effort--will continue to be a focal point for the assessment of international economic problems and policies. The work on this project may well become more intense than in the past. A particular area of emphasis in next year's WEO will be an analysis of balance of payments problems arising from the growth of external indebtedness of developing countries.

11. Other research activities will include the continuation of studies on problems of adjustment experienced by developing countries, with special emphasis on the effectiveness of exchange rate and related policy measures in overcoming these problems. Research efforts will continue to be devoted to the study of adjustments faced by centrally planned economies. Special emphasis will be given to the improvement of the analytic approach underlying the Fund's surveillance activities, including the assessment of the feasibility of establishing guidelines related to global current account positions and financing of imbalances. Other continuing research projects include the analysis of developments related to international banking, various aspects of stabilization programs, special analyses requested by member countries, analysis of public expenditures and of the fiscal impact of nonfinancial public enterprises, and analysis of fiscal disequilibrium and crowding out. In support of the work of the Development Committee, there will be continued studies on external indebtedness, stabilization of export earnings, access to capital markets, and other matters of concern to this Committee.

Operations and relations with member countries

12. The program of operations and relations with member countries covers country analyses and regular consultations involving surveillance under Article IV, and negotiations of arrangements for the use of Fund resources, as well as actual financial operations and transactions with member countries. It is the largest of the Fund's eight programs, accounting for nearly one third of the Administrative Budget.

13. In FY 1983, some 208 missions have been scheduled in connection with Article IV consultations and use of Fund resources involving some 1,140 staff trips, compared with 204 missions and 1,006 trips in CY 1981. In addition, it is expected that there

will be about 220 staff trips (197 in CY 1981) in connection with special consultations, participation in aid coordination and debt negotiation meetings, and other country related work. As of October 31, 1982 the Fund had stand-by arrangements with 21 countries and extended Fund facility arrangements with eight countries.

14. In order to appreciate fully the intensity of the pressure imposed on the staff by the number of missions and trips indicated in paragraph 13, it is perhaps useful to put these figures in perspective. Table 2, which provides work load indicators over the last ten years, i.e., since the collapse of the par value system and the first energy crisis in the early 1970s, shows that the work load in CY 1981 already imposed a major burden on the staff, particularly those in area departments and supporting functional departments.

Table 2. Selected Work Load Indicators and Staffing in Connection with Operations and Relations with Member Countries 1971-81 1/

	CY 1971	CY 1976	CY 1981	5-Year Index 1976=100	10-Year Index 1971=100
No. of member countries	120	129	143	110.9	119.2
No. of stand-by and extended arrangements approved	15	20	31	155.0	206.7
No. of consultation and use of Fund resources missions	111	120	204	170.0	183.8
No. of individual staff trips in connection with member countries	687	790	1,203	152.3	175.1
Total number of staff positions in five area depts., ETR and FAD	453	495	551	111.3	121.6

1/ Figures for staff are for FY 1973, FY 1978, and FY 1983, respectively.

15. During the past year or two, there were several specific developments that further added to the work load in connection with operations and relations with member countries. A number of relatively large-quota countries developed external problems requiring a much higher level of Fund assistance than in the past. At the same time, owing to the difficult world economic situation, the

negotiation process for Fund financial assistance became lengthier and more complex, necessitating several missions before an arrangement could be concluded. Another factor is the need for closer collaboration with commercial banks, required because of the deterioration in the external debt position of many member countries. Such collaboration involves a higher level of participation in aid coordination and debt negotiation meetings, more work on debt statistics and debt projections, as well as frequent discussions with bankers.

16. The prospect for FY 1984 and for several years thereafter is that the high level of operational and related country work will persist as the number of countries making use of Fund resources will continue to be large. Even under very favorable circumstances, it will take considerable time before the situation of member countries experiencing severe external debt problems shows significant improvement. In addition, two groups of countries that in the past have made little use of Fund resources might need financial assistance in the near future. Those non-oil producing countries that have been dependent on financial support provided by oil producing countries might be affected by the less than favorable balance of payments posture of some oil producing countries and accordingly might turn to the Fund for assistance. The economic situation of several smaller industrial countries, that have postponed coming to the Fund, continues to be weak. If the adjustment policies that they are currently pursuing turn out to be unsuccessful, these countries too might need Fund financial assistance. In addition to the continuing high level of work connected with use of Fund resources, the frequency of Article IV consultations--the principal vehicle for the surveillance of exchange rate policies--will be increased. In the coming year, an effort will be made to observe strictly an annual consultation cycle with major industrial countries, with countries having Fund-supported programs, as well as with countries that might request financial assistance from the Fund. Special emphasis will be put on debt problems.

17. The Administrative Budget for FY 1983 provided for 17 posts (the same as provided for FY 1982) for resident representatives and advisors who assist with the financial program related to use of Fund resources, give advice and assistance to the host countries and provide the Fund with essential information. As noted earlier, three additional positions were approved by the Executive Board during the course of the year, increasing the ceiling to 20. A preliminary review with the departments indicates that for FY 1984 no net addition will be needed over and above the present ceiling.

Special services to member countries

18. The main components in the special services to member countries program, the second largest in terms of resources used, are the provision of technical assistance by experts and staff, mainly in the central banking, fiscal, and statistical fields, and the training of member country officials by the IMF Institute.

19. It is expected that in CY 1982, central bank experts will have provided about 77 man-years of assistance (76 in 1981), with the support of 11 missions (7 in 1981) manned mainly by staff drawn from the Central Banking Department. In FY 1984, demand for such assistance, especially for experts, may be higher than this year, as more countries will require specialized support in implementing adjustment measures. Also, the Central Banking Department will provide more expert assistance for helping member countries in collecting debt statistics and in setting up permanent machinery for the reporting, control, and management of external debt operations on a continuing basis.

20. Technical assistance activities in the fiscal field continued at a substantial level in 1982, with assistance being given to 51 countries (52 in 1981). It involved 11 man-years of staff time (15 in 1981) and 30 man-years of panel members' time (29 in 1981). The decline in staff time arose from a number of factors, including the use of two full-time panel consultants, a greater use of technical assistance panel consultants for short-term technical assistance missions, and the initiation of a practice whereby, in suitable cases, technical assistance missions prepare an extended aide-mémoire in the field rather than a report on return to headquarters. These trends are expected to continue in the coming year. In FY 1984, technical assistance covering a wide range of fiscal matters, including fiscal reforms needed in the context of adjustment programs and the analysis of public expenditure, is likely to increase.

21. Technical assistance in statistics, including work in the fields of money and banking, balance of payments, government finance, general statistics, and computer use, covered 60 member countries in CY 1982. In FY 1984, assistance in statistics will remain at about the present level but with a particular emphasis on the currentness of data.

22. In CY 1982, the IMF Institute will have organized 11 courses, each averaging 32 participants. The 11 courses were two in Financial Analysis and Policy (one in English, one in French), two in Techniques of Economic Analysis (one in English, one in French), two in Financial Programming and Policy (one in English, one in Spanish), two in Balance of Payments Methodology (one in English, one in French), two in Public Finance (one in English, one in Spanish), and one in Government Finance Statistics (in Spanish). The English course in Financial Analysis and Policy had, in addition to 32 English-speaking participants, seven Arabic-speaking participants for whom translation and simultaneous interpretation facilities were provided. The Institute has also conducted three seminars at headquarters for senior officials: Budgeting and Expenditure Control, Balance of Payments Management, and Central Banking, given for the first time this year. Finally, by conducting two seminars abroad, the Institute expanded its overseas training

program, which is intended to meet the special requirements of members needing more assistance than can be provided through the regular in-house program.

23. Next year's program will be similar to the current one. A total of 11 courses and two seminars are scheduled to be held at headquarters. Translation and simultaneous interpretation facilities for Arabic-speaking participants will be expanded to the Techniques of Economic Analysis course, so as to allow an increase in the number of non-English-speaking Arabic participants from 7 to 12. Next year there will be a seminar on Central Banking as given in 1982, and a new seminar on the Role of the Fund in the International Monetary System. The latter, to be conducted in close cooperation with other departments, is intended primarily for senior officials from countries that have recently joined the Fund. This seminar will focus on the nature and role of the Fund in the adjustment process and on various aspects of the international monetary system. In addition to its regular program of lecturing assistance provided to international and regional institutions, the Institute plans to offer training seminars in two or three member countries, including one in China. In an effort to improve the effectiveness of the Institute's training program, the introduction of audiovisual teaching aids and techniques in the program is being considered.

Information and statistical services

24. The information and statistical program includes various information services, such as press conferences, press releases, press briefings, speeches, lectures, and seminars; the Fund's publications; and the development, collection, and maintenance of statistics for the Data Fund.

25. The pressures mounting in the international financial system in 1982 were reflected in the work load of the External Relations Department, especially its Information Division. Initiatives taken by the Department included widened contacts with journalists, particularly in respect of countries where Fund programs are being implemented and within the press corps of the United Nations. Seminars for nonofficials, including academics, bankers, business and labor groups, were held in Kenya and Washington, D.C., with another scheduled next April in Chile. A colloquium on the IMF was organized in China. The first in a series of publications, stemming directly from these seminars, Adjustment and Financing in the Developing World: The Role of the International Monetary Fund, was issued. The World Economic Outlook as well as other publications issued in the Occasional Papers series continued to attract worldwide sales as part of a larger promotion effort. In the coming year, the Department expects to intensify contacts with the media through press seminars exclusively for press in Europe, the United States, and Latin America and also through press contact trips to Africa and

the Middle East. Additional seminars for nonofficials are tentatively being planned, subject to the approval of of the Executive Board. The publications program is planned to include a three-volume Fund History, 1971-78 and a number of other books, mostly based on material developed out of the academic seminar series. It is planned to publish two supplements to International Financial Statistics (IFS) on special topics, following the two supplements in 1982 on the Fund's accounts since its inception and on long-term trends in world trade.

26. The development of the Fund's statistical data base gained impetus in CY 1982 with the reorganization of the Data Fund system. On the basis of the improved data management facilities provided by that system, the Bureau of Statistics proposes to establish procedures for on-line update in order to provide more timely information. An effort is also being made to reconcile country data maintained by area departments with those of the Data Fund system.

27. With regard to the project on international banking statistics, approved by the Executive Board in FY 1982, there were important developments during the past year that will have a significant impact on the work of the Bureau in FY 1984. Agreement was reached with a number of countries to participate in the project, and industrial countries reporting information on international banking activities to the Bank for International Settlements have now undertaken to provide such information to the Fund. A number of other countries, including offshore banking centers, have also agreed to commence reporting such data to the Fund. Another facet of this project involves an effort by the Bureau to extract parts from a number of existing Data Fund files dealing with international banking. The data will enable the Fund to publish in IFS, in an aggregated form, the geographic composition of banks' foreign assets and liabilities, making also a distinction between bank and nonbank depositors and borrowers. In addition, the Bureau of Statistics is examining these data in conjunction with those on balance of payments and government finance statistics, as well as information from the World Bank's debt reporting system, with a view to establishing an integrated data base on countries' external debt.

Relations with international organizations

28. This activity includes representation at meetings of other international and regional organizations, reporting on the work of these organizations, providing assistance on occasion, and exchanging documents and information. An important aspect of this work is close collaboration with the World Bank. During the past year, Bank staff members have participated in 10 Fund missions, and as a reciprocal arrangement, the Fund has given assistance to the Bank by providing, 12 staff members for Bank missions. In FY 1984, this collaboration is likely to increase further as the Bank expands its lending activities in support of structural adjustment programs. A

highlight of work with other international organizations will be with respect to the General Agreement on Tariffs and Trade (GATT) and matters concerning protectionism in world trade. Also, liaison activity with respect to the Bank for International Settlements will need to be enhanced in the coming year. Work related to providing regional organizations with advice and assistance will include Fund participation in the interagency mission in the Eastern Caribbean, which was recently established under the aegis of the Caribbean Group for Cooperation in Economic Development.

General support services

29. General support services include budget, personnel, housekeeping, graphics, transportation, certain automated data processing, documents, archives, communications, payroll and other administrative payments, accounting, audit, the Joint Library, and certain translation and interpretation services.

30. A notable development in this area of activity is the establishment of the new Bureau of Computing Services, which consolidates the data processing staff within the Fund. The Bureau will be responsible for providing all data processing services required in the Fund. The Director took up his duties early this month. An Executive Committee, composed of the Deputy Managing Director and several senior staff from the user departments, has been established. This Committee is responsible for establishing priorities and strategic directions for computing services and for reviewing departmental requirements for data processing services. The Committee has been functioning for several months. Another highlight of work in the general support area has been continued supervision of the construction of the extension of the headquarters building. This work has prompted a study of the internal communications system, with the assistance of a consultant, with a view to determining whether it would be appropriate to change the system throughout the headquarters building in conjunction with construction of the extension. During the year, further progress has been made in the program to automate the cable room. With regard to personnel matters, continued emphasis has been placed on efforts to recruit more French-speaking and Spanish-speaking staff, more staff from developing countries, including fixed-term appointments, staff mobility, reviews of career streams, and the long-term performance appraisal system. In addition, an enlarged joint Fund/Bank health facility has started operation under the management of the World Bank's new Medical Department. Work has also gone forward on the joint Fund/Bank study of the pension plan, and surveys have been started on benefits for expatriates and on financial aspects of the Medical Benefits Plan.

31. It is expected that work in connection with general support services will again be heavy in the coming financial year. Important elements in the work program will be the start of a comprehensive

salary survey scheduled to be considered by the Board in the middle of CY 1984 and relocation of staff following completion of the extension to the headquarters building. More studies on application of modern office technology, including appropriate word processing strategies within the Fund, are planned, and work will continue on a coordinated review of automated information retrieval and on automation of the services provided by the Joint Library. The Bureau of Language Services will continue efforts to raise productivity to the extent that scope for this still remains following the significant gains registered in recent years and to make increased use of outside contract translators, with due regard to safeguarding both the confidentiality of the material and the quality of the translations.

Staffing

32. During the mid-1970s, the Fund experienced for about three years a period of severe pressure in connection with the repercussions from the breakdown of the par value system and the first energy crisis. With the onset of the second energy crisis and the world recession, there has been another period of great pressure. A large number of member countries are now coming to the Fund for assistance and their serious external debt problems have made it necessary for the Fund to have much closer coordination with other lenders, particularly the commercial banks. It is clear that on this occasion the recovery time will be longer and consequently the pressure on the Fund to help alleviate these problems, which has already lasted for two years, will likely persist for a number of years to come. If such pressure and the day-to-day operations make it impossible for the staff to engage in longer-term work, then there is a danger that the Fund will not keep up with new ideas and will not develop its own, which is essential if it is to continue to meet new challenges and maintain its increasingly important position at the center of the international monetary system. In short, there is a danger of the Fund's using up its "intellectual capital." Such considerations will be kept in mind when reviewing the requests of the departments for staff positions in connection with the FY 1984 Administrative Budget.

33. Quite apart from this wider and more fundamental issue, it is apparent that there will be a need to provide some relief to several of the area departments, some of the supporting functional departments, and certain other staff affected by repercussions from the increase in country work, in order to maintain the highest quality of work, and to lessen the strain on staff members and their families of a heavy travel schedule, some of which is at short notice. It is possible that some relief may be provided by temporary transfer of positions from other parts of the Fund or by hiring consultants and temporary staff, but the expected length and intensity of the current period of pressure suggest a clear need to

build up the regular staff of the departments affected. In the longer run, such an approach would enable the staff to acquire the necessary depth of knowledge of the circumstances and problems of member countries and would make for a greater efficiency expected to come from more continuity. A constant difficulty today, when departments are fully committed to operations and day-to-day routine work, is that staff members have to be moved from one task to another at short notice with a resulting disruptive series of breaks in the continuity of work. Because much of the pressure in negotiating use of Fund resources in the field and managing the departments at headquarters falls on senior staff, my preliminary view is that one of the most effective ways of providing relief may be to add some senior positions in a few strategic places. In this connection, it might be noted that in the past five years the proportion of Range F positions and above in the area and supporting functional departments that are at the senior level has declined from 29.6 to 28.0. In addition, some support at the economist level might be provided by expanding the Economist Program. At present about 20 economists a year are hired under this program for a two-year probationary period before being placed in regular positions in the departments. We plan to engage in a study of these and other possible approaches to see which might best help to alleviate the pressures in the departments handling operations and relations with member countries.

34. There will also be a need to make special staffing provision in connection with two other activities. The first is the project for collecting and analyzing international banking statistics, which will represent a high priority in next year's work program and which the Executive Board approved two years ago on the understanding that ultimately it could require as many as eight positions, i.e., five more than now budgeted. It may also be necessary to add several positions for the Fund's telephone system, which as a result of the study mentioned in paragraph 30 is to be separated from the World Bank's system. The cost of such positions would be partly offset because the Fund will no longer have to share the cost of staff manning a joint facility.

35. Other work programs should, if at all practical, be handled with the present level of staff, and where there is pressure it should be relieved by eliminating or reducing lower-priority work, by using temporary assistance, or by making greater use of office technology to improve productivity. This would be necessary if help is to be given to the area departments and related functional departments and at the same time overall staff growth is kept within bounds that are prudent. I believe an effort should be made to keep the organization small and efficient, and to avoid gradually building up into an unwieldy bureaucracy. However, I would not wish to be unduly rigid on this matter, bearing in mind my earlier remarks on "intellectual capital."

Administrative expenses in FY 1984

36. With regard to administrative expenses in FY 1984, it is expected that there will be higher costs on account of some necessary additional positions, promotions, individual and general salary increases, and perhaps a marginal increase in mission travel. These additions will be offset to some extent by reductions on account of the Annual Meeting being held in Washington instead of abroad, reduced settlement travel for Executive Directors in a nonelection year, and lower rental for computers on account of the purchase of one of the computers in FY 1983 mentioned earlier.

Security matters

37. Before concluding, I would like to call particular attention to the important matter of security. Two incidents may serve to demonstrate why there is cause for concern. First, in June, a bomb caused damage to our Office in Paris. Second, you will recall that the press learned details of the Board's recent discussion of the devaluation of the Swedish krona. These incidents, involving physical security and the confidentiality that is indispensable to the working of the Fund, serve as a reminder that more should be done to improve our security arrangements. It is only prudent to assume that such security problems will continue and may intensify. Together with the World Bank, we are discussing with the French authorities measures to improve security at the Paris Office. Also this year we have purchased equipment that will enable us to inspect the mail and supplies that enter the Washington headquarters building. Finally, we have also established procedures by which access to especially sensitive documents is severely curtailed. More remains to be done, however, and I have asked the staff to give high priority to this matter.

Mr. Grosche said that he had found the Managing Director's statement to be both well balanced and thorough, and he was in full agreement with the views contained therein on the future work program.

Specifically, Mr. Grosche mentioned first the great importance that his authorities attached to the Fund's special services to members. They had made a valuable contribution to countries undertaking adjustment efforts, and he could therefore fully support their envisaged expansion.

His second point concerned staffing, Mr. Grosche remarked. The pressure on the Fund to help alleviate serious economic problems in a greater number of member countries had put some departments under considerable strain. Some relief might be provided by temporarily transferring positions from other departments or by hiring consultants and temporary staff. But, as the Managing Director had also suggested, the length and intensity of the expected work load, and the danger of using up the Fund's intellectual capital, made it necessary to build up the regular staff of the departments concerned. Nevertheless, overall staff growth should be kept within bounds in order to keep the organization small and efficient.

Mr. Lovato commented that the work of the Fund had been expanding considerably in recent years and seemed likely to expand even more in the future. He shared the view that it would be necessary to provide some relief to various departments while doing everything possible to avoid building the Fund up into an unwieldy bureaucracy.

In connection with the Fund's liquidity position and its need to borrow, and especially with the program for borrowing from official sources, Mr. Lovato asked whether anything further could be said about discussions with the Saudi Arabian Monetary Authority.

The comprehensive review of the Fund's policies on external debt was welcome, Mr. Lovato said, but it would take some time. He recommended that, while it was under way, the debt situation of various member countries be kept under scrutiny by means of more frequent Article IV consultations.

Among special services to member countries, Mr. Lovato remarked, technical assistance by experts and staff was particularly important, above all in the fiscal field. The analysis and control of public expenditure posed a problem in almost all countries at present. Therefore, he recommended not only that all requests for technical assistance in that area be satisfied, but also that a staff member from the Fiscal Affairs Department accompany missions conducting Article IV consultations whenever a country was experiencing public sector difficulties.

Finally, Mr. Lovato strongly supported the representation of the Fund at meetings of other international and regional organizations. In addition, the appropriate exchange of information with commercial banks was becoming especially important.

Mr. Nimatallah said that he was in general agreement with the Managing Director's midyear budget statement. There was no doubt that the Fund should play a much more central role in alleviating present world economic problems. His authorities had stated repeatedly that the Fund should be strengthened financially, technically, and in every possible way. Pressure on what the Managing Director had called the intellectual capital of the Fund was clearly already reaching the point at which it might endanger the quality of the Fund's work, not just in the future but even at present. He was pleased to note that the Managing Director had already been thinking of how to tackle the problem. In the short run, it would indeed probably be necessary to hire more consultants and staff on a temporary basis, and to look for ways to shift staff members around. However, in the medium and the long run, more senior staff and junior economists might have to be hired. In addition, studies on the application of modern technology to the work of the Fund should be speeded up. It would be prudent to alleviate any possible overburdening of the staff that might impair the quality of its work.

Certain member countries, like his own, Mr. Nimatallah remarked, benefited mainly from the special services that the Fund could offer. Technical assistance, whether by the staff or through the recruitment of experienced experts, helped such countries to improve the quality of their activities, particularly in the central banking, fiscal, and statistical fields. The IMF Institute certainly made its own contribution by training the staff of many member countries. He welcomed the expansion of the Institute's facilities in Arabic to include a course on techniques of economic analysis, and he hoped that they could be expanded further, both to cover other courses and to benefit more participants in the future.

It was prudent for the Fund to enhance liaison with international organizations, Mr. Nimatallah considered. In present circumstances, the Bank for International Settlements and the GATT could be especially helpful in facilitating the work of the Fund. The BIS had recently been instrumental, together with certain central banks, in offering bridging finance to some Fund members so that they could meet debt repayments falling due while they were negotiating financial arrangements with the Fund. At the same time, rising protectionist tendencies had been hindering the adjustment efforts of some Fund members. The GATT was the forum for reducing those tendencies and for encouraging free trade, so that closer relations between the Fund and the GATT were also desirable.

Finally, Mr. Nimatallah mentioned, information from various sources suggested that the outside world was better informed than it had been about Fund activities, thanks to the External Relations Department. He also understood that economic research bodies and policymakers around the world were finding the Fund's various publications useful; the Research Department and the Bureau of Statistics were to be thanked for preparing them. In sum, he appreciated the efforts of management and staff to make the Fund an effective institution.

Mr. Sigurdsson said that he supported all the Managing Director's recommendations. It did indeed seem likely that work on the World Economic Outlook might well become more intense. He agreed that closer analysis of the external debt problem of developing countries was of great importance. Another aspect of the WEO exercise that deserved closer attention concerned terms of trade projections, on which a special study might be warranted. In particular, it would be interesting to have a systematic presentation, assessing movements in the terms of trade, by commodity, matched with the terms of trade projections of the area departments, by country. The link between terms of trade projections and demand forecasts needed to be brought out clearly. Obviously, it was a difficult area for analysis, but the terms of trade picture was important not only for many member countries facing balance of payments problems but for the Fund in its financial operations.

Also in connection with the WEO project, Mr. Sigurdsson added, it was necessary to try to understand the reasons for the growing lack of symmetry in the global balance of payments statistics and projections. In the past few years, the residual had been so large that it risked detracting from the credibility of the balance of payments forecasts. The problem deserved close scrutiny in the context of the coming World Economic Outlook exercise.

He had noted with great interest that special emphasis would be given to improving the analytical approach underlying the Fund's surveillance activities, Mr. Sigurdsson went on, including an assessment of the feasibility of establishing guidelines on global current account positions and the financing of imbalances. That approach was most welcome, and both the multilateral aspects and the need for global consistency in the Fund's policy advice should be stressed. He was tempted to quote the Managing Director's own question, posed at the seminar on Exchange Rate Regimes and Policy Interdependence, sponsored jointly by the Fund and the National Bureau of Economic Research (NBER) in August 1982; why was the Fund so shy to pronounce itself on the exchange rates for the major currencies? Mr. Polak had reminded the participants that it had not always been so. Theory did seem to be lagging behind reality, and the medium-term balance of payments analysis traditionally relied upon by the Fund was inadequate.

Referring to the program of activity on operations and relations with member countries, Mr. Sigurdsson observed that, as shown in Table 2, the total number of staff positions in the relevant departments had just about kept pace with the number of member countries. Yet it was equally clear from the other selected work load indicators in the table that the staff had already been bearing a major burden in calendar year 1981. He agreed with the Managing Director's preliminary view that one of the most effective ways of providing relief might be to add some senior positions in a few strategic places. Another idea that might be worth considering was to increase the number of divisions in the area departments to help focus the work on country matters.

Finally, on special services to member countries, Mr. Sigurdsson once again underscored the importance of the Fund's technical assistance. He welcomed in particular the proposals for strengthening the expert assistance provided by the Central Banking Department in helping member countries to collect debt statistics and to set up effective machinery for the reporting, control, and management of external debt operations on a continuing basis. As for the Annual Report on Technical Assistance in general, he recalled that during the discussion of the work program (EBM/82/130, 9/29/82), he had suggested that the report, which it was proposed to circulate for information, should be discussed in the Executive Board. He hoped that the report would be drawn up with that possibility in mind.

Mr. de Maulde remarked that from the descriptive material and the indications of policy developments given by the Managing Director in his statement, it was obvious that the Fund's performance was good and that it should be given the means to continue to do well. On special services, he strongly supported Mr. Lovato's and Mr. Nimatallah's views. As for statistical services, he sought further assurance that there would be no duplication with the work of the World Bank and the Bank for International Settlements with respect to the survey of international banking.

More fundamentally, Mr. de Maulde said, Table 1 seemed to lack a column, namely, on the estimated increase in costs for FY 1984 compared with FY 1983. In future, he would appreciate the inclusion of such cost estimates for the Fund's eight programs of activity in order to provide the Executive Board with what was a basic element in all budgetary procedures in member countries, thereby enabling it to offer the guidance sought from it with respect to the formulation of the Administrative Budget.

Mr. Joyce said that he particularly wished to welcome the establishment of the interagency mission to the Eastern Caribbean, which would no doubt make an important contribution to solving economic difficulties in that area.

On staffing, Mr. Joyce continued, he had been particularly impressed by the Managing Director's belief that if the staff continued to be subject to such great pressure, it might be prevented from engaging in longer-term work, and that the Fund might be in danger of not keeping up with new ideas or developing its own, as was essential if the ever-increasing challenges being thrust upon the Fund were to be met. He agreed fully with the Managing Director that action probably needed to be taken in the not too distant future. The work load continued to increase; the number of member countries to which missions were sent and the complexity of the negotiations in which the staff was engaged showed no signs of declining. In that connection, he wondered whether any information was available on the average number of days it was taking to carry out Article IV consultations or complete negotiations on the use of Fund resources. When the Fund was so short staffed, it obviously had to manage its business even more efficiently. But the responsibility had to be shared by the member countries concerned. It would be helpful if Executive Directors, despite a deep appreciation of their national priorities, could impress upon their authorities that it was essential for the timing of a mission to be arranged with care to ensure that the authorities were well prepared and ready to hold discussions with the staff.

Some expansion of the staff had to be envisaged, Mr. Joyce considered, even though he agreed that the Fund should be as tightly managed as possible. It might well be that it would be enough for the time being to hire consultants and possibly some more senior staff. He was also concerned, however, about the strain on other staff members, who were spending a great deal of time away from headquarters on missions as well. The pressures were thus more broadly felt.

Technical assistance created an additional work load, but a vital one, Mr. Joyce remarked. He welcomed the work going forward in the Central Banking and Fiscal Affairs Departments, as well as the renewed emphasis being given to trying to help countries to improve their statistical base, with respect not only to accuracy but also to the speed with which data came forward. It was not only member countries that experienced difficulties because of the lack of information systems alerting them to future developments; the Fund was finding it increasingly difficult to administer certain of its activities, such as the compensatory financing facility, when statistics were either not available in time or lacked certainty.

The proposed work program was impressive, Mr. Joyce stated. Problems of adjustment were obviously a key subject for closer study, although he felt that they were as important in developed countries as in developing ones, as recent experience showed. He also attached importance to a thorough review of the Fund's policies on enlarged access, stand-by and extended arrangements, and external debt.

On information and statistical services, Mr. Joyce asked for an indication of the special topics to be dealt with in the two new supplements to International Financial Statistics. Finally, he wondered how work was proceeding on the effort to reconcile country data maintained by area departments with those of the data fund system.

Mr. Prowse expressed appreciation for the commitment and energy of the staff and of the management. The accomplishments were great, and there was no question that the pressures being felt would have to be alleviated. He also wished to endorse the general budget process. The present discussion in the Executive Board was valuable, but in the period preceding the presentation of the budget for FY 1984, it might be beneficial for the process to continue at a less formal level. He wondered whether it might be possible, for instance, for the Committee on Administrative Policies to meet informally following the circulation of the forthcoming budget in March 1983. The terms of reference of the Committee specifically excluded that possibility at present, but he wished to raise the matter for consideration by other Directors who might feel, as he did, that the details of the Administrative Budget might be more usefully discussed, and the budget process thereby made more complete, at Committee level.

Like others, he endorsed the broad thrust of the substance of the Managing Director's statement, Mr. Prowse continued. It would be helpful to have some further clarification of the rather enigmatic statement in paragraph 6 that "to assure the Fund's ability to respond to its members' more immediate borrowing needs, high priority will be given to the development of appropriate arrangements for use on a contingency basis in special circumstances." Likewise, in paragraph 7, there was a reference to continuing preparatory work for possible borrowing by the Fund from the private market; he would have imagined that the Fund was already well prepared.

Continuing, Mr. Prowse asked whether he was right to understand that if the Interim Committee met in January-February 1983, it would consider an updated World Economic Outlook, which would seem helpful. If so, would a further revised version be prepared if the Interim Committee met in April?

He joined other Directors in underlining the importance that his authorities placed on the special services rendered by the Fund, Mr. Prowse commented. It was difficult to overestimate the value of those services to some of the members in his constituency. The development of the banking infrastructure was critical in the early stages of development of an economy, and the work of the Fund's own experts and of its consultants in a number of the countries in his constituency was to be commended. Short-term pressure, and indeed ongoing pressures, could be relieved by the effective and flexible use of consultants, but there would certainly also be a need to strengthen the permanent staff that provided special services.

In addition to the provision of special assistance to members, Mr. Prowse went on, he took pleasure in underlining the high regard in which his authorities held the IMF Institute and its work. It could hardly do more than it was doing already with its present structure, which might well not lend itself to expansion. The personal guidance of the Director in all the activities of the Institute was of great value. Nevertheless, he wondered whether there was a medium-term or a long-term plan for developing the structure of the Institute to enable it to continue to provide its invaluable service to an increasing number of member countries. Requests to participate in seminars and courses already far outran the available capacity.

On the Fund's relationship with international organizations, Mr. Prowse asked whether any progress had been made in relation to the closer involvement of GATT officers in Fund missions, particularly where trade policy was important. He recalled that the matter had been raised earlier in the year (EBM/82/123, 9/20/82) and that the possibility had not been excluded, despite the obvious difficulties.

The staff had been responding well to the pressures placed on it, and at all levels, Mr. Prowse observed, including staff providing general support services. It might be possible to move some staff members temporarily from their present positions in other departments to area departments, but his initial reaction was to support the Managing Director's preliminary view that one of the most effective ways of relieving the pressure on the staff might be to add some senior positions in strategic places in the area departments.

Mr. Hirao stated that he too was in general agreement with the thrust of the Managing Director's comprehensive statement. In the area of general policy development and research, he noted that work on measures to strengthen the Fund's capital base and to make other financial arrangements would be accelerated. He shared the Managing Director's sense of urgency on those matters and was fully prepared to cooperate in all the

Fund's work so that it would be in a better position to help member countries to alleviate their economic problems. He also welcomed the proposed review on the policy of enlarged access to the Fund's resources in light of the overall size and distribution of the quota increase, together with the reviews scheduled of other facilities, including perhaps an overall review of the compensatory financing facility.

On the World Economic Outlook exercise, Mr. Hirao considered that it was both pertinent and timely to place particular emphasis on the analysis of balance of payments problems arising from the growth of external indebtedness, in view of the gravity of existing external debt problems and their possible impact on international financial markets.

As for operations and relations with member countries, Mr. Hirao noted, the process of negotiating financial assistance from the Fund had become lengthier and more complex; several missions were required before an arrangement could be reached with the member. Inevitably, the work load of the staff was bound to become heavier in the current difficult economic situation. In the circumstances, he underscored the importance of continued efforts to adjust the staff's priorities to reflect the changing tasks of the Fund. He fully shared the Managing Director's views on staffing.

Mr. Sangare said that he was in broad agreement with the Managing Director's outline of the work program and the budget. The estimates for the FY 1983 budget presented in Table 1 appeared to be a good basis for determining budgetary allocations among the various Fund activities in FY 1984. It was important for the Fund to continue to give priority to items 4 and 5, concerning relations with member countries, including the provision of technical services. The countries in his constituency had always been among the most fortunate beneficiaries of the courses provided by the Institute, both in English and in French. He was pleased to note that the Institute's program would continue as in the past. The number of seminars conducted at headquarters for senior officials was expected to be reduced from three to two, however. Since training at the higher levels of management should help to improve the implementation of policy, he wondered why the reduction had been considered necessary. Assistance in the improvement of statistical services was also of particular importance to many countries in his constituency, and he welcomed the intention to assist members in collecting statistics and in setting up appropriate machinery to manage external debt operations.

On the question of staffing, Mr. Sangare went on, with a larger number of countries coming to the Fund for assistance, and given the role that the Fund was expected to play in the current international economic environment, the staff had inevitably come under increased pressure from a heavier work load. It might therefore be necessary to adjust the number of staff positions in the FY 1984 budget. In that connection, he believed that attention should be given to the possibility of increasing the number of divisions as a way of easing the pressure on staff members involved in negotiating the use of Fund resources. The number of positions at the economist level might also be expanded, in both the area and functional departments, so as to lessen the strain of the heavy travel schedule, which the Managing Director had correctly identified as a major problem. It had often been difficult in the past, as it was at present, to send out a mission on time, simply for want of an economist when several missions were in the field at the same time. Specific attention should be paid to that problem if the Fund was to provide a quick and effective response to members wishing to use its resources.

Commendable efforts had been made to improve the Bureau of Language Services, Mr. Sangare remarked. The support services provided by the Bureau had enabled non-English-speaking member countries to communicate more effectively with the Fund on country-related matters and also to keep up with policy discussions taking place within the Fund in which his authorities were vitally interested.

Mr. Feito observed that the Managing Director's statement on the budget was clear and comprehensive, and he agreed fully with the outline of the Fund's program of activities for the period ahead.

He had only one point to make on activities under the heading of general policy development and research, Mr. Feito continued. In the current circumstances of the world economy, his authorities believed that the comprehensive review of the Fund's policy on the external debt issue was of crucial importance. He hoped that the staff would look at the debt problem both from the point of view of the world economy and from that of the countries concerned, and that it would explore possible and desirable developments in the near future. He understood that the review would also encompass an analysis of the interrelationship between a country's debt service problem, the achievement of a viable balance of payments position, and the need to provide a minimum level of consumption during the period of adjustment.

As far as operations and relations with member countries were concerned, Mr. Feito added, heavy pressure had been imposed on the staff over the past few years. Table 2 revealed the sharp increase in productivity of the staff and management. The Managing Director's statement made it clear that that pressure would certainly not diminish; indeed, it might on the contrary increase significantly in the years ahead. It was therefore obvious that the Fund might already be facing constraints on its human capital that should be eased if the level and quality of the Fund's work were to be maintained. Consequently, he fully shared the Managing Director's views on staffing. More specifically, he emphasized the need for adequately building up the Fund's regular staff. The increase in the Fund's membership, as well as its changing role in the world economy, had not been matched by the necessary increase in staff.

Mr. Polak remarked that he shared the Managing Director's fear about the possible danger of the Fund's being unable to keep up with new ideas or develop its own. If that happened, it would indeed be serious. But he was not sure that the risk arose from the pressure of day-to-day operations. The direct exposure of the Fund, and of its staff, to the challenge of a heavy work load was what led to the discovery of problems and stimulated minds to search for their solution. Certain problems that he would like to see in the work program had in fact not been included. Nothing had been mentioned, for instance, about international financial flows for the balance of the 1980s; with the reduction in the role of commercial banks, other agencies might have to take up the slack, and the Fund was of course the primary candidate. In addition, he had the impression that the Fund had not been active enough in exchange rate surveillance in recent years to make its mark in the thinking about that subject. Perhaps the Fund lacked direct contact with the most important projects relating to surveillance. For instance, it was unfortunate from the Fund staff's point of view that both the intervention study and the periodic meetings on surveillance of the Group of Five had taken place outside the channels of the Fund.

In sum, Mr. Polak considered, the problem of preserving the Fund's intellectual capital was a matter of the quality, not of the quantity, of staff. However, the enormous pressure on the area departments and other directly concerned staff was a problem of quantity, and he supported the Managing Director's suggestion that additional staff be employed, probably at senior levels. An effort should certainly be made to keep the Fund small and efficient, and to avoid building it up--gradually or not--into an unwieldy bureaucracy. He joined Mr. Joyce in supporting management to the full extent in being appropriately reluctant to send out missions unless the opposite numbers in the member countries were prepared to conduct business. Even a single unsatisfactory experience with a particular country would warrant hesitation in sending yet another mission.

The establishment of the Bureau of Computing Services, and the appointment of a competent Director, would fill a need that had been felt badly for many years, Mr. Polak considered. The effort to reconcile country data maintained by the area departments with those in the Data Fund system, to which Mr. Joyce had referred, was also a reflection of a long-standing problem. The failure to solve it had been, at least in small part, the reason why the area departments had become overburdened. He hoped that a strong effort would be made to come to grips with that problem and to integrate the Bureau of Statistics into the active work of the Fund.

Mr. Ainley said that he had one suggestion concerning the World Economic Outlook exercise. That was of course a major research effort, but the Executive Board knew little about its preparation. It might be helpful if, at a convenient time in the future, interested Executive Directors could learn, perhaps in an informal session or study group, the sort of asssumptions from which the staff started and how the staff tried to ensure consistency within the exercise. He recognized that work on the forthcoming World Economic Outlook project might have to be brought forward, and that the staff had a heavy work load ahead of it. He was not, therefore, making his suggestion for immediate consideration.

On surveillance, he believed, like Mr. Sigurdsson, that it would be helpful to know more about the staff's thinking with respect to its assessment of the feasibility of establishing guidelines related to current account positions and financing of imbalances, an extremely important policy area, Mr. Ainley considered.

Referring to relations with member countries, Mr. Ainley welcomed the intention, despite the staffing constraints, to adhere more closely to an annual cycle of Article IV consultations with major countries. He also fully supported the special emphasis to be given to debt problems. He hoped that the staff would bear in mind the idea, put forward by his chair in previous discussions, of holding joint Article IV consultations with small groups of countries whose economies were closely linked, such as members of currency unions. That approach might be helpful for countries facing similar problems, and could take some pressure off the staff. However, he realized that it might not be feasible in all cases and would not press the suggestion too far.

As for special services, Mr. Ainley continued, he looked forward to learning more in due course about the progress being made by the Central Banking Department in the process of helping members to improve the collection of debt statistics and setting up permanent machinery for managing external debt operations.

Finally, Mr. Ainley said, he agreed with most of what the Managing Director had to say about staffing. It was clear that the increasing work load would require a strengthening of regular staff in the area departments most affected. But he tended to agree with those who argued against relying too heavily on temporary staff or on the temporary transfer of existing staff. He wondered whether more use could not be made of long-term--say, five-year--contracts, for high-caliber staff at senior as well as at more junior levels. In that way, the new intellectual capital that was so essential for an institution like the Fund could perhaps be imported relatively quickly.

Mr. Coene remarked that in the World Economic Outlook exercise, it might be useful to concentrate on the reasons why actual growth developments--at least in the major industrial countries--had almost systematically deviated downward from the projections for nearly two years. In concentrating in that exercise on external indebtedness, consideration might also be given to the feasibility under present circumstances of undertaking a coordinated effort to strengthen economic recovery, and the likely effects of such an effort on the present strains in the international financial system.

He fully supported the emphasis to be given to improving the analytical framework underlying the Fund's surveillance activities, Mr. Coene added, and he subscribed to Mr. Sigurdsson's remarks on the issue.

The planned expansion of special services to member countries, to which his authorities attached great importance, was also welcome, Mr. Coene said.

Finally, Mr. Coene commented that better collaboration with the World Bank was desirable, all the more so with the intended increase in the structural adjustment lending of the IBRD. Coordination had not been fully satisfactory in some cases, and its improvement would be beneficial to both institutions.

Mr. Jaafar said that he was in general agreement with the Managing Director's statement. Referring to operations and relations with member countries, he recognized that the staff was under pressure because of the number of missions that it had undertaken in the past and was likely to continue to undertake in the coming year. Management might wish to consider reducing the frequency of Article IV consultations with some members; however, for industrial and developing countries facing serious problems, the regularity of missions should be maintained.

Technical assistance programs had proved invaluable, Mr. Jaafar observed. Member countries had benefited greatly from Fund assistance in such areas as fiscal and monetary policies, the compilation and analysis of statistics, and the implementation of economic programs. He supported a larger role for the Fund in the coming fiscal year; experts could be assigned from the Fund for given periods of time to member countries in need of special assistance in setting up research programs, and in carrying out research on special topics, naturally at the request of members in need of such assistance. Management should not hesitate to expand the Fund's technical assistance activities.

The training programs of the IMF Institute had been extremely useful in building up the capabilities and skill of the officers of member countries, Mr. Jaafar noted. Finally, Thailand wished to record its appreciation for the extensive technical assistance that the Fiscal Affairs Department had provided on various occasions.

Mr. Salehkhou expressed broad agreement with the Managing Director's statement on the midyear budget review and on the provisions made for dealing with developments during the current and forthcoming financial years. On the issues of the Fund's liquidity and capital base, he fully endorsed the need for urgent measures to enable the Fund to help member countries avert serious disruptions in their economies. Despite the accelerated timetable of the Eighth General Review of Quotas, the sheer magnitude of present imbalances and their destabilizing nature necessitated urgent steps to strengthen Fund resources further. In particular, the Fund's liquid assets should be increased in order to enable it to deal effectively--on a contingency basis and in special circumstances--with the global disequilibria that were rampant in many crucial sectors. In that connection, exploratory work on possible borrowing from the private sector was particularly welcome. Continuous reviews of the Fund's liquidity position and its financing needs would be helpful in monitoring the current situation.

A closely connected issue was the review of the external debt problems of the developing countries, Mr. Salehkhou continued. The review would be especially helpful in analyzing the effects of the debt burden on balance of payments problems and, hence, on the World Economic Outlook. Regarding the forthcoming reviews of the policy on enlarged access and the compensatory financing facility, his chair considered it essential, given the critical situation in most developing countries, that the outcome should not be a relative reduction in access to Fund resources.

Another point of interest to his chair, Mr. Salehkhou stated, was the allocation of SDRs. At recent meetings of the Committee of the Whole on the Review of Quotas (Meetings 16 and 17, 11/30/82), he had noted at least some interest in the question and wondered why the matter was not shown in the work program, since it was of the highest priority to the authorities of all developing countries.

Reference had been made by the Managing Director to the additional burden placed on the staff as a result of the increased work load and a busy schedule, Mr. Salehkhou noted. Nevertheless, he believed that it was generally agreed that the staff had consistently maintained the high quality of service that it rendered to member countries and to the Executive Board, which was a testimony to its intellectual capacity, dedication, and professional ability. At a time when member countries urgently needed those services on a much larger scale, additional recruitment and a larger budget allocation aimed at easing the staff's work load would be a profitable investment for all members. He sincerely hoped that budget considerations would not stand in the way of the further extension of such services. The same argument applied to special services to member countries, especially in the form of technical assistance in central banking and the collection and compilation of data and statistics. The latter, with rising global debt burdens, had become highly relevant, and he welcomed the worthwhile steps to be taken in that direction by the Central Banking Department.

His authorities sincerely appreciated the valuable efforts being made by the IMF Institute, Mr. Salehkhou stated. The importance of the technical training of officials of member countries could not be overemphasized, and the need had become more acute in face of the uncertainties and disequilibria of the past few years; such services had greatly benefited member countries, especially developing countries, which were in great need of such technical training. In that connection, he welcomed the projected increase in the number of Arab participants in the courses offered by the Institute, and he wished to see those services extended further to include other member countries. The small central banking seminar, which had been held for the first time in 1982 under the joint auspices of the Institute and the Central Banking Department, had been a great success, and he looked forward to more such seminars.

With respect to the staffing problems to which the Managing Director had referred in paragraphs 32-34 of his statement, Mr. Salehkhou concluded, he was happy to note that the Fund had made progress in recruiting a greater number of qualified staff from developing countries, and he hoped that that trend would be maintained. However, there were still many more individual countries that could contribute additional qualified professional staff to the Fund. Generally speaking, he endorsed the suggestion to create additional senior staff positions so as to alleviate some of the pressures currently evident at the senior staff level. Other similar measures were needed to cope with the pressures appearing at different staff levels and in other work areas.

Mr. Malhotra said that he agreed broadly with the thrust and direction of the Managing Director's statement.

Most Directors had supported the idea of strengthening the staff, in a difficult world situation, Mr. Malhotra noted, and given the requests for assistance that the Fund was receiving as a result and to which it needed to respond quickly. So far, the Fund had happily been somewhat conservative in hiring personnel--compared with many other international organizations--and had been able to keep down the number of its staff and to maintain its quality. While he would join what appeared to be the general consensus in supporting the management's efforts to ensure that the Fund was adequately staffed at the senior level in country departments, he also saw a need to review the Fund's present procedures. The time allowed for consultations and the preparation of the subsequent reports had become the norm, and it was quite possible that the cycle could be shortened a little. The welcome steps being undertaken to modernize the facilities for the collection and processing of data should aid more efficient and speedy work that should also be taken into account in determining how much the staff needed to be strengthened.

The emphasis on the need for improving the liquidity and capital base of the Fund was most welcome, Mr. Malhotra commented. He hoped movement in that direction could be intensified and speeded up. As for the proposed studies on the SDR and related matters, he noted the recent statements of some Executive Directors that the question of an SDR allocation should be examined afresh. As he recalled, the major objections to a new issue of SDRs had stemmed from concerns about inflation and the high level of international liquidity. Notable success had been achieved in reducing inflation in some major economies, including that of the United States, Japan, and Germany. In addition, there was evidence that international liquidity might have fallen.

Appropriate emphasis should be placed in the World Economic Outlook on balance of payments problems arising in particular from the growth of external indebtedness in the developing countries, Mr. Malhotra observed. But that problem was mainly a manifestation of the persistent recession and the decline in world trade. Thus, it might be useful for the Fund to undertake a study of the impact of protectionism and trade restraints on the balance of payments and debt position of developing countries, in addition to the several special research studies mentioned in paragraph 11 of the Managing Director's statement.

Much had been said about the intellectual capital of the Fund and the need for the institution to continue its consideration of broader developments in international finance, the balance of payments situation, and the international economy as a whole, Mr. Malhotra continued. The work done so far by the Research Department and other related departments had been of high quality. However, in the present extremely complex world situation, it might be helpful if the groups of staff members engaged in such difficult tasks as assessment of the World Economic Outlook were broadened to pull in people who had not been associated for so long with the particular viewpoint of the Fund. If other minds were to study the issues from different angles, the result might be a fresher perception of what was really happening in the world.

He was also glad that the adjustment problems of developing countries were to be studied, Mr. Malhotra went on, and that special emphasis would be placed on examining the effectiveness of exchange rate and related policy measures in overcoming those problems. In continuing its studies of the persistent balance of payments problems of a larger number of countries, the Fund should keep under review its policy of conditionality in the light of the obstinate economic malaise confronting the world economy.

He joined other Directors in emphasizing the usefulness of the technical assistance programs that the Fund had been supporting, Mr. Malhotra concluded. The value of those programs was likely to grow in the increasingly difficult world economic situation. He felt sure that the Executive Board would support wholeheartedly the further efforts the management chose to make in that field.

Mr. Zhang said that he was in broad agreement with the recommendations in the Managing Director's statement on the midyear budget review. In specific reference to the Fund's activities in relation to China, his authorities considered that the colloquium that had taken place recently in Beijing had further enhanced mutual understanding. Chinese practitioners and those in academic circles had benefited greatly from that type of dissemination of information. He looked forward to other similar colloquiums to be held in Beijing at an appropriate time in the future.

He also appreciated the efforts of the IMF Institute in providing the opportunity for the continued participation of Chinese officials in its various training courses, Mr. Zhang added. Discussions had started on holding a training course for mid-level officials in financial fields in Beijing in 1983.

The Fund had begun to increase the number of Chinese nationals on the staff, Mr. Zhang remarked. One translator was already employed, and another budgeted translator post should be filled in due course. Agreement had also been reached on appointing a Chinese national under the Special Appointee Program.

Mr. Diao stated that he had no major difficulties with the budget proposals outlined in the Managing Director's statement.

He could go along with the proposed work program relating to general policy development and research, in which the priorities were clearly identified, Mr. Diao observed. There was no doubt that the Fund had a unique and outstanding role to play in the 1980s and that urgent action had to be taken to bring about an adequate enlargement of its lending capacity if it was to carry out that role and to enable it to provide assistance to member countries in financial difficulties. It therefore went without saying that work on that particular endeavor should be accelerated. His chair encouraged the Managing Director to sustain his commendable efforts to promote and to maintain the leading position of the Fund in the critical search for financial stability in member countries. The attention to be devoted to the borrowing program of the Fund, and to the study of external debt problems, was of great interest to the countries in his constituency. In addition, not only would a comprehensive review of Fund policies on enlarged access, compensatory financing, and the external indebtedness of members be timely and welcome, but it would also be an extremely valuable source of guidance in the economic management and policy process.

The critical importance of the World Economic Outlook project for the assessment of international economic problems and policies was universally recognized, Mr. Diao added. He welcomed in particular the novel idea of placing greater emphasis on the analysis of balance of payments problems resulting from the growth of external indebtedness of developing countries. The countries in his constituency would look forward eagerly to the completion and publication of the results of the studies.

Operations and relations with member countries were without any doubt one of the Fund's most important programs, if not the most important one, Mr. Diao added. Indeed, that program provided the image of the Fund in action and enabled the international community to evaluate the usefulness of the institution. It was therefore essential for the Fund to be adequately equipped to carry out that program of activities, which exerted great pressure on the staff. As Table 2 in the Managing Director's statement showed, the pressure had clearly become excessive. The tendency for the membership at large to experience a generalized need for Fund assistance, and the fact that negotiations relating to the use of Fund resources had become more complex and lengthier, made it imperative to remedy that situation at the earliest possible time in order to preserve the quality of output, the productivity, and the morale of the staff. Fortunately, management was fully aware of the danger that persisted and excessive pressure on the staff might use up the Fund's intellectual capital. He was pleased to learn that due consideration would be given to the requests of various departments when their staffing needs were reviewed in connection with the Administrative Budget for FY 1984. He shared Mr. Ainley's preference for longer-term appointments.

The special services to members were highly appreciated by his constituency, Mr. Diao noted, especially those provided by the Central Banking Department, the Fiscal Affairs Department, and the IMF Institute. Due attention should therefore be paid to the needs of those departments to ensure that they were adequately staffed and equipped.

As for information and statistical services, Mr. Diao mentioned his support for the efforts being made in connection with the collection and diffusion of statistical data. Work in that area was crucial for day-to-day operations as well as for policy formulation. The collaboration forthcoming from other agencies and commercial banks in the collection of data was greatly appreciated; it was one positive step in the right direction, and with the appropriate encouragement, such cooperation could be further developed.

The Fund's membership being about the same as that of other international organizations, Mr. Diao remarked, it was only normal for the Fund to maintain good and close relations with other institutions pursuing closely related endeavors, such as the GATT and UNCTAD.

The view of his chair on language services was well known, Mr. Diao said. He shared Mr. Sangare's position and encouraged management to ensure the adequate and efficient functioning of the Bureau of Language Services.

Mr. Erb said that, like other Directors, he agreed basically with the thrust of the Managing Director's statement. On staffing, the current period of intense activity was, he agreed, a strain on the staff, and there might be a need to increase the existing staff level. As the Managing Director had suggested, the Fund should be flexible and use existing staff to the greatest possible extent--perhaps through temporary transfers--before adding significant numbers of permanent new positions. He noted in that respect that there had been fairly significant increases in staff levels during the past three or four years. Furthermore, the quality of the personnel should be emphasized in the hiring process, and the objective should be to build up the staff over time, based on longer-term commitments. Similarly, he hoped that any new senior positions would be filled by drawing from existing staff, thereby permitting greater promotion from within the Fund.

With respect to research and analysis, Mr. Erb continued, he too had been impressed by the Managing Director's comment about the danger of the Fund's using up its intellectual capital. The way in which he looked at the problem was slightly different, however. In a period of intense activity, the Fund's intellectual capital, broadly speaking, was likely to be recharged; the problem would be the ability to synthesize and communicate the results both within and outside the Fund. He felt strongly that the staff should be given the time to think and write to achieve some synthesis. No sharp distinction should be made between thinkers and doers; as he had stressed in previous discussions, there should be a good deal of staff mobility among the various departments, and all departments should be expected to do research work. Collaboration among the various departments should encompass not only the functional but, and perhaps just as importantly, the area departments.

In terms of specific research work, Mr. Erb continued, he would put primary emphasis on improving the Fund's analytical approaches. First, with respect to surveillance activities, two areas deserved special attention, namely, the economic linkages among the major currency countries, and the need to pay greater attention to the management of a country's external assets and liabilities. Again, the Fund still had a good deal to learn from the further analytical work that needed to be done on stabilization programs, drawing on the thinking of those involved in the preparation and negotiation of the programs.

He would be interested in knowing what direction the project for collecting and analyzing international banking statistics would take, Mr. Erb remarked, in the light of more recent developments not only in the BIS but even among some private banks.

The pressures imposed on the staff involved in negotiating the use of Fund's resources, and the importance consequently of adding senior staff positions, had suggested to him, Mr. Erb remarked, that it would be useful at some point for those Executive Directors not directly involved in the drawing up of Fund programs to learn more about the process, if a discussion could be arranged.

Mr. Finaish said that he was in general agreement with the Managing Director's comprehensive and useful statement. Many other Directors had emphasized the importance of technical assistance in its different forms. For certain members, the most signficant and probably the only tangible link with the Fund was technical assistance, basically that provided by the Central Banking Department, the Fiscal Affairs Department, and the IMF Institute. He had noted with satisfaction the extension of the special Arabic arrangements to the Institute's course on the techniques of economic analysis, and reiterated his hope that the arrangements could be used in conjunction with other Institute courses as soon as possible. But he also hoped that candidates who were proficient in English would still be given access to the relevant main courses and not be required to make use of Arabic facilities as a substitute.

He had noted in paragraph 25 of the Managing Director's statement, Mr. Finaish said, that the External Relations Department "expects to intensify contacts with the media through press seminars exclusively for press in Europe, the United States, and Latin America and also through press contact trips to Africa and the Middle East." He would appreciate further elaboration of the purpose and the form of those contacts, particularly with respect to trips to Africa and the Middle East. Finally, he welcomed the emphasis on the quality of the translation work of the Bureau of Language Services.

The Director of the Administration Department noted that in more recent years the issuance of the Annual Report on Technical Assistance had been advanced from June to March so that the report would be available at the same time as the budget document. An attempt would be made in the forthcoming report to assess the effectiveness of some of the technical assistance projects, as requested by some Executive Directors. The report would also provide some information on the progress being made in providing assistance to help countries in collecting debt statistics and in setting up adequate machinery for the reporting of external debt.

Estimated costs for FY 1984 had not been included in Table 1, the Director explained, because although the departments had estimated their staffing needs for the following financial year, the estimates were preliminary and had not been subjected to review by management. A clearer picture of the needs and the increase in costs would be possible in February after the departments' formal budget submissions had been reviewed. However, it was possible at the present stage to foresee some decrease in the first program of activity mentioned in Table 1 because meetings of the Boards of Governors of the Fund and World Bank would take place in Washington, D.C. in 1982 instead of abroad. On the other hand, there would probably be an increase in the resources allocated to the fourth and fifth programs of activity. It was still premature to make a projection in absolute terms of the likely increase in costs, although the staff felt that for the coming financial year, but not taking account of any general salary adjustment, an increase in costs of 6-10 per cent might be expected.

As for the possibility of changing the structure of the Institute to meet the additional demand, the Director added, it might be recalled that in 1982 an External Training Division had been established in the Institute to conduct a new program of training seminars outside the Fund and to meet more fully requests for assistance in regional and national training.

On staffing, the Director of the Administration Department considered that the Fund would need to increase the number of professional staff positions at all levels, but probably had a greater need for senior staff at present, for two reasons. First, the operations of the Fund had become much more complex, and, second, the ratio of senior staff to other professional staff had been falling over the past 20 years. For instance, the proportion of staff in ranges J-M to the total professional staff had declined from 28 per cent in 1960 to 26 per cent in 1965, and was currently at 23 per cent. For the area departments, the percentage had fallen from 31 per cent in 1960, to 29.5 per cent in 1965, and to 27.8 per cent in May 1982. In that connection, some Executive Directors had suggested an increase in the number of divisions, a course that might well be followed in the FY 1984 budget.

The Deputy Director of the Administration Department commented that good progress was being made with the project to integrate the data of area departments with that of the Data Fund. It was a long-term project, however, because of the long period over which the problem had grown up. Work had been completed on 16 countries, and the plan was to tackle a selected number of countries every year; the project should not entail an increase in staff, although the heavy work load of area departments and the absence of staff members on missions would slow down the project. As indicated in EBAP/82/202, Supplement 1 (9/29/82), the conference was to take place on March 24-25, 1983, and would cover a number of areas of main interest for the future development of the SDR.

The two supplements to International Financial Statistics that were planned, the Deputy Director explained, were the fifth and sixth of a series. Supplement No. 5 would deal with money supply figures and No. 6 with international reserves, the latter providing statistics for a much longer series than was available in the IFS. Similar supplements had been published on exchange rates, price statistics, Fund accounts, and trade statistics.

On the international banking project, the Deputy Director continued, discussions had taken place with the Bank for International Settlements and other institutions in an attempt to avoid duplication. It was his understanding that in March 1983 the Executive Board would discuss a paper on the issue by the Exchange and Trade Relations Department and other departments, accompanied by a progress report by the Bureau of Statistics on the projects that it was undertaking. The Bureau was visiting countries not covered by the BIS statistics. At the same time, the BIS, Fund, and World Bank statistics were being put on the same basis, namely, that of the Fund data system, so as not to duplicate the various efforts and to permit the statistics to be updated more rapidly.

There was no fixed objective for the number of seminars for senior officials that were offered by the Institute every year, the Deputy Director of the Administration Department remarked. In 1981, there had been an additional third seminar on central banking, and only two seminars in 1982. The number was decided on an ad hoc basis, bearing in mind also the need not to impose too heavily on senior officials.

The staff representative from the Administration Department said that the average consultation mission in 1981 had involved five or six people, including a secretary, and had lasted about three weeks. Overall, including the preparatory and follow-up work, each consultation mission took about one man-year of time, at an average cost of somewhat over $100,000. The figures would be approximately the same for a mission to discuss the use of the Fund's resources. Those were figures for an average mission. An arrangement for the use of Fund resources might of course involve several missions.

The Deputy Managing Director commented that the Fund had had to persevere to gain the collaboration of the BIS in providing the debt statistics that the Fund received at present. Thus, it might take time to eliminate duplication at the beginning of such joint exercises. Collaboration with the BIS was beginning to take shape in a number of interesting and useful ways. For instance, technical exchanges had recently taken place between staff from the BIS and staff members of the Bureau of Statistics, for the first time in the history of the two institutions, although the Fund had of course had many discussions with policy officials from the BIS in the past.

The Conference on International Money, Credit, and the SDR was being organized by the Research Department, the Deputy Managing Director observed. As indicated in EBAP/82/202, Supplement 1 (9/29/82), the conference was to take place on March 24-25, 1983, and would cover a number of areas of main interest for the future development of the SDR.

On the procedural points raised by Mr. Prowse, of which he had in effect been given notice at the most recent meeting of the Committee on Administrative Policies, the Deputy Managing Director recalled that the initial aim, when the Committee on Administrative Policies had been created in 1969, had been to shorten the time that the Executive Board itself had to spend on administrative questions. After a good deal of debate, and with the approval of all but one Executive Director, it had been decided to exclude the Administrative Budget from the Committee's terms of reference, for two reasons. First, the Administrative Budget was considered to be of such overriding importance that all Executive Directors would want to be on a fully equal footing when they came to discuss it in the Executive Board. Second, there had been a feeling that it was probably unlikely that time would really be saved. The latter view seemed to have been borne out by the later experience of the Committee on Administrative Policies, which in 1973 had, at the request of the Managing Director at the time, discussed general salary adjustments to permit Executive Directors to express their views perhaps more fully and more informally than they felt able to do in the Executive Board. More recently, of course, the Executive Board had avoided that constraint by discussing such matters in closed session. The interesting point to note was that after three years, it had been decided to abandon the discussion of general salary adjustments in the Committee, on the same two grounds, namely, that all Executive Directors wanted to be involved at an early stage of the process, and that the Committee meetings had become so numerous that they were time-consuming rather than timesaving. Some feeling had also begun to emerge at that time, as he recalled it, about not impinging on what were properly the duties of management.

There were two procedures under which Executive Directors could make a contribution to the budget process, the Deputy Managing Director added. The first was the midyear budget discussion, which had not always taken place but had been suggested in 1965 and adopted in the initial consideration of the FY 1967 budget. Since then, the discussion had proved its usefulness, both to Executive Directors and management. The second procedure was the somewhat older and familiar one whereby the Deputy Managing Director provided Executive Directors with a preliminary and somewhat informal outline of the proposed budget in March, inviting comment and discussion by Executive Directors, and with the staff standing ready to respond to questions. On the whole, those procedures had served well, and he doubted the usefulness of changing them.

Mr. Prowse remarked that, in the light of the statement by the Deputy Managing Director, he was prepared to let the matter of the Administrative Budget rest. His question about the development of the structure of the IMF Institute had been directed at the future. He took it that there was no prospect of further development at present.

The Director of the Administration Department explained that the Director of the IMF Institute had confirmed that no change in the structure of the Institute was contemplated in the medium term, for two reasons. First, although the number of applications to participate in Institute courses had increased, it would be necessary to move from the so-called three-track system to a four-track system in order to accept more candidates. There were a number of physical constraints to the Institute's ability to offer four courses at the same time. The Concordia apartment building was not large enough to accommodate the increased number of participants; a new conference room and working space would be needed; and a significant increase in staff positions would probably be required.

As for the type of course, the Director explained, the Institute had introduced in the recent past two new courses, one on technical and financial analysis, and another on financial programming policy. No further innovations were contemplated in the medium term in that field either, because it took some time to integrate a new course into the Institute's proceedings.

The Chairman, responding first to specific questions, noted that the last sentence in paragraph 6 of his statement referred to the possible amendment of the General Arrangements to Borrow. As for the negotiations with SAMA, as he had stated during the discussion of the Work Program (EBM/82/130, 9/29/82), preliminary discussions had been held in Toronto with the Saudi Arabian authorities, who had expressed a preference for discussing the matter at the beginning of 1983.

On collaboration with the GATT, the Chairman continued, some ideas had been put forward in the staff paper on developments in international trade policy, to which Executive Directors had reacted during the discussion in the Board (SM/82/136, 7/12/82; Sup. 1, 7/21/82, Sup. 2, 7/21/82, and Cor. 1, 8/10/82; EBM/82/122 and EBM/82/123, 9/20/82). Since that time, he had been talking to the Director-General of the GATT about how to improve working procedures and to determine what contribution the Fund and the GATT could make in each other's work. A number of suggestions had resulted from the ministerial meeting of the CONTRACTING PARTIES to the GATT held at the end of November, only one of which concerned the Fund directly, namely, the possibility of a study by the Fund of the consequences for international trade of exchange rate fluctuations; it was too soon to know exactly what such a study should cover, and when it could be launched. But he had already been exploring with the GATT ways to improve the general relationship between the two institutions, including ways to give more emphasis in Article IV consultations to the trade regime of member countries. He intended to circulate a statement on the subject to Executive Directors in the near future, for consideration by the Executive Board before the Fund's arrangements with the GATT were completed.

On the World Economic Outlook project, the Chairman continued, careful consideration would be given to the two useful suggestions by Mr. Sigurdsson for a study of terms of trade projections, and of the statistical asymmetry in the global total of current account balances. Both studies should be possible.

Consideration could also be given to Mr. Ainley's suggestion to hold a seminar at some time for Executive Directors who might be interested in the assumptions and methodology underlying the World Economic Outlook exercise, the Chairman remarked. However, because of the present work load, the matter could not be looked at immediately.

A comprehensive staff paper, entitled "The General Survey of the World Economic Outlook," was in preparation and would be issued in time for discussion in the Executive Board prior to the forthcoming meeting of the Interim Committee, the Chairman stated, even if the date of that meeting were advanced. A World Economic Outlook paper would also be issued in connection with any further meeting of the Interim Committee that might be held at a later time. Note had been taken of other comments and suggestions relating to work on the World Economic Outlook.

On three more general aspects of the discussion, the Chairman noted first the invaluable emphasis placed by many Executive Directors on the technical assistance functions of the Fund. In particular, he had noted the views of the many Directors who had referred to the importance of assistance by the Central Banking Department to member countries in improving knowledge of their external debt and their capacity to monitor it. He had also taken note of the comments and suggestions relating to the work of the Fiscal Affairs Department, the Bureau of Statistics, and of the importance attached by Executive Directors to the role of the IMF Institute.

Second, with respect to the work program of the Fund, the Chairman commented that the interested departments would be made aware of the observations and suggestions of Executive Directors, including those relating to the World Economic Outlook. He agreed fully with those Executive Directors who had emphasized the importance of improving the surveillance procedure, and of holding consultations on an annual basis, at least with countries with problems and with members of importance to the international monetary system. As had been noted, the Fund's surveillance activities were assuming greater significance, and their timing should not, as had on occasion happened in past years, permit intervals of two years or more to occur between consultations. He had also taken note of the views expressed on improving the analytical framework in which the Fund exercised its surveillance functions. Further work should be done on the relationships between medium-term balance of payments positions and what might be called a view on the medium-term exchange rate pattern. Those matters touched closely the Fund's functions and its responsibilities under Article IV, and should be foremost in the staff's minds in coming months.

Correct emphasis had also been placed during the discussion on the need to look deeply into debt problems, not only of developing countries but of industrial countries as well, the Chairman said. As had been stated during the discussion, the quality of the Fund's body of thought on world economic developments and on adjustment policies should not become rigid.

The third and related aspect on which the discussion had focused, the Chairman observed, was the problem of staffing. Clearly, before the number of staff positions was increased, it would be necessary to alleviate what might be called useless strains on the staff. A number of attempts had been made to trim any internal procedures that might be cumbersome, as Mr. Malhotra had suggested, but the exercise was rather frustrating because it involved entering into great detail without much of a saving. However, a further attempt could be made to improve internal procedures, including those relating to the work of the Executive Board. Certainly, every effort should be made to reduce delays in the field and to avoid sending full missions to member countries if the preparatory work had not been done and the meetings had not been properly scheduled. Area departments might perhaps be able to say whether or not they had had such experiences as in the past and to suggest how they could be avoided in the future.

There was general agreement, the Chairman believed, that the Fund should remain a lean organization and that there should not be an unqualified increase in staffing in response to current pressures. But it was clear that some area departments were under great strain. Dedication and the sacrifice of annual leave were not of course the way to organize the long-run work of the Fund. The question of how to strengthen the operational resources of departments would have to be addressed. It might be necessary to look further at the suggestion by some Executive Directors to increase the number of divisions. He had also noted the observation that it was not only a question of temporary relief but of maintaining the Fund's policy of recruiting, training, and keeping staff of high caliber.

Mr. Zhang asked whether the burden on the staff could not be reduced by shortening the length of staff papers. He recognized that there had been a great improvement in the past two years, especially with respect to staff reports for Article IV consultations, which were also better laid out. But further improvement could probably be achieved in some respects.

The Chairman noted that, ideally, policy papers should be as short as possible, although the background material such as the information contained in reports on recent economic developments was intended for reference and not as required reading.

The Executive Directors concluded their midyear budget discussion.

2. FUND INCOME POSITION - REVIEW

The Executive Directors considered a staff paper providing the basis for the midyear review of the Fund's income position in accordance with Rule I-6(4) (EBS/82/210, 11/23/82).

The Deputy Treasurer noted that there had been a substantial increase in the Fund's income for November of SDR 12 million, raising income for the financial year so far to SDR 15 million. That increase was the result of two important developments. First, the volume of transactions had risen sharply over the estimates in Table 2 of EBS/82/210, by 80 per cent for ordinary resources and by 45 per cent for borrowed resources. Total purchases so far in the current financial year amounted to SDR 3.1 billion, compared with the estimate for the whole year of SDR 7.2 billion. The increased use of the Fund's resources was of course consistent with the figures in the staff's paper on the Fund's liquidity position (EBS/82/180, 10/8/82) and above all with the large operational budget which the Executive Board had recently approved (EBM/82/159, 12/13/82). The second main reason was the dramatic change in interest rates. The gap between charges and the rate of remuneration had almost reached a historically low level, and the service charge on new transactions was covering the gap. Thus, the Fund was no longer operating at a loss, but since October, and for the first time in two years, was generating positive income.

Mr. de Maulde recalled that at the previous discussion in the Executive Board of the Fund's income position (EBM/82/75 and EBM/82/76, 6/2/82), he had probably been the most outspoken of all Executive Directors in expressing his reservations about the proposed decisions. He had stated at the time that the assumptions made by the staff about interest rate levels and the projected use of Fund resources appeared unrealistic. He did not derive any pleasure from discovering that his view had been valid and that the most likely outcome of FY 1983 would be a buildup of reserves going well beyond anything initially envisaged. At the end of April 1983, reserves would most probably stand at about SDR 1 billion instead of the SDR 872 million originally targeted. The unwanted addition to the Fund's reserves of SDR 125-130 million was equal to about four years of the net income--some SDR 30 million annually--that was to have been achieved by adding 3 per cent to reserves annually.

The situation could be distorted even further should the staff's present forecast of income for the second part of the current financial year once again prove overpessimistic, Mr. de Maulde continued. At a time of widespread decline in interest rates, worldwide underutilization of productive capacity, and a sharp decline in inflation, he wondered whether it was realistic to base estimates on the assumption that interest rates would remain unchanged for the last six months of the financial year, especially when over the full year a decline of 0.5 per cent in the SDR interest rate had added about SDR 30 million to the Fund's net income. The Deputy Treasurer's closing observation reinforced his own doubts on the matter.

He also had some reservations about the revised estimates of administrative expenses, which had a significant bearing on net income, Mr. de Maulde added. The inclusion in those estimates of SDR 7 million due to the adjustment of the SDR/dollar rate was based on an exchange rate about 3 per cent higher than the present rate. There again, he wondered whether the assumption did not tend to lower the final figure for net income.

There was a greater chance, Mr. de Maulde concluded, that net income would be higher than forecast at the end of the present financial year than the other way around. According to present policy, the Fund's reserves were not supposed to have reached the SDR 1 billion level, before 1987 at the earliest. His conclusion was simple: the decision taken in June 1982 to increase the rate of charge from 6.25 per cent to 6.60 per cent had obviously been a mistake, and it should be reversed. If the reversal of the decision could be made retroactive to May 1, 1982, he would be even happier. Such a move would enable the Fund to associate itself with the decline in interest rates that was so necessary to help its membership pull out of the current recession.

Mr. Ainley noted that the task of estimating the Fund's net income for one year, or even six months ahead, was not an easy one, given the many uncertainties. It was, therefore, not altogether surprising that the revised estimate for the current financial year was very different from the estimate of June 1982, particularly in view of the marked decline in international interest rates. With hindsight, the original estimate had proved to be on the cautious side, but that was probably as it should be in a financial institution like the Fund. The more favorable outcome being projected meant that the safeguard mechanism would not have to be activated. But the mechanism would have been triggered if the excess income from FY 1982 had not been deemed to be available as income for FY 1983. The Executive Board's decision of June 1982 was thus vindicated, as it was by the fact that the Fund had thereby been enabled to avoid an unnecessary increase in its rate of charge at the time.

He had noted that the Fund's holdings of SDRs had been somewhat higher on average than the target of SDR 4.25 billion for the period to end-May, Mr. Ainley continued, because purchases had been lower than expected, but for the reasons given by his chair among others in June 1982, it was important to meet that target. Therefore, he hoped that the staff would raise the SDR component in financing purchases under the present operational budget, even if it meant running down SDR holdings to a level below SDR 4 billion. Indeed, given the likely demand for Fund resources in the coming months, it might be necessary to run down its holdings in broadly similar proportion in the coming financial year.

The estimates for the rest of FY 1983 were, of course, still subject to a large margin of error, Mr. Ainley remarked. It was thus helpful to have the analysis in Section 4 of EBS/82/210, which showed the effects of different interest rate assumptions on the central projection. He agreed with the staff that it would be premature at the present stage to adjust the rate of charge or the rate of remuneration; as the staff had pointed out, the midyear review should not normally be the occasion for making such changes. The prospects for raising the rate of remuneration at the review for the full year seemed much more propitious than they had been in June 1982; the case for doing so would be particularly strong if the projected surplus of some SDR 60 million materialized, and if interest rates continued to fall. As for the SDR interest rate, he hoped that the staff would also prepare a paper reflecting some of the ideas discussed when the Executive Board had examined possible improvements to the SDR (Seminars 82/5 and 82/6, 7/2/82). At that time, his chair had suggested raising the SDR interest rate closer to that on selected Euromarket instruments. It would be useful if the question could be discussed in time for any changes, if they were agreed, to come into effect at the beginning of the FY 1984 financial year.

Finally, Mr. Ainley referred to the presentation of the operations of the Borrowed Resources Suspense Accounts and to a point raised by Mr. Polak in the past. According to the table in Appendix II, the average amount of investment of borrowed resources in the first half of the current financial year seemed to have been rather high in relation to the average amount of borrowing, at least judging by the average estimates under both headings for the financial year as a whole. That was understandable, due to the slippages that had occurred in Fund disbursements. But the Executive Board should be in a position to monitor the balances kept in those accounts with the aim of keeping them to a minimum. That seemed particularly important at present because the net cost of borrowing appeared to have widened significantly since FY 1982, based on figures in the previous review of the Fund's income position (EBS/82/75, 4/29/82; Sup. 1, 5/21/82; and Sup. 2, 6/10/82). However, based on the format of Table 1 in Appendix II of EBS/82/210, it was not possible to relate the average balance for the period to the drawdowns made during the year. It would be useful if, in future papers, the staff could comment in the text on developments in the level of the average balance, or if the report on the Suspense Accounts--scheduled for circulation for November--could be regularly included as an annex to the income reviews. Such information would make it easier for the Executive Board to keep track of that important aspect of managing the Fund's finances.

Miss Le Lorier remarked that, like Mr. Ainley, she had of course noted that without the carry-over of SDR 92 million of income from FY 1982, the safeguard mechanism would have been triggered. However, as she read Rule I-6(4), the Executive Board would then first have considered how to deal with a situation in which the targeted amount of net income, on an annual basis, was not achieved by an amount in excess of 2 per cent of the Fund's reserves. The Executive Board might well decide not to change the rate of charge if it were of the view that a change would be either undesirable or unnecessary. Basically, Mr. de Maulde's position was based on the idea that no change in the rate of charge would have been decided even if the safeguard mechanism had been triggered.

Mr. Nimatallah said that he could go along with the staff's recommendation that no adjustment be made at the present time to the rates of charge and/or of remuneration. There was no guarantee that the projected surplus would materialize fully, and a more appropriate time for considering an adjustment of those rates, if any, would be at the end of the financial year when the situation was clear.

Mr. Polak, commenting on the point raised by Mr. Ainley, said that with the interest curve having resumed its normal shape, it was costly for the Fund to borrow money at five-year interest rates and invest it at three-month interest rates. The explanation given for doing so was that the Fund had to give adequate notice to its lenders, which it was of course required to do. But he recalled having suggested another way of handling the matter, namely, by having the Fund prefinance the borrowed money from its own resources, up to a given amount, and of course charging the member the borrowed interest rate cost from the start. Instead of building up a stockpile of borrowed money, the Fund would periodically use the resources it had set aside for the purpose. He invited the staff to look at the matter.

Mr. Malhotra associated himself with Mr. de Maulde's view that a more realistic estimation might have obviated the necessity of raising the rate of charge from 6.25 per cent to 6.6 per cent in June 1982. Moreover, the outturn for the current financial year might be even better than the staff estimated in the paper under discussion: the Fund's reserves would be substantially higher than had been envisaged or than was necessary under the Fund's policy in that respect. Since it had not been the practice to change the rate of charge at the time of the midyear review, he would not suggest immediate action, but hoped that changes would be made at the appropriate time. Nevertheless, he did wonder whether or not the Fund should consider how to make use of the additional income accruing to it. It might perhaps be possible to explore the possibility of subsidizing use of the Fund's resources under its policy of enlarged access, to alleviate the burden of the high rates of interest being paid by a large number of borrowing member countries.

Mr. Yamashita said that his chair could support the staff's proposal that no change be made in the rate of charge or the rate of remuneration at the present time. The purpose of the current midyear review, as stipulated in Rule I-6(4)(b), was mainly to safeguard the Fund's income position in relation to the targeted income over the course of the financial year. The revised estimates by the staff indicated that a surplus--of the order of SDR 60 million--was likely to be realized, so that it was unnecessary to take new measures to further safeguard the Fund's income position for the time being. The Executive Board would be in a position to discuss the precise manner of disposition of the net actual income for the current financial year at the end of that year.

Mr. Grosche remarked that although it was true that the revised estimate of net income differed considerably from the original estimate, uncertainties persisted. First, no one could foretell whether or not interest rates would continue to fall and stay at lower levels. Second, the use of unremunerated reserve tranche positions in the future could not be foreseen. Therefore, prudent financial management would not call for any adjustments at the present time. The question should be reconsidered in May 1983.

Mr. Sigurdsson said that he supported the staff recommendation that no adjustment be made at present to the rate of charge, the rate of remuneration, or both rates. The matter would of course be re-examined at the end of the financial year.

Mr. Lovato observed that the paper prepared by the staff for the midyear review of the Fund's income position only drew attention to the atmosphere of uncertainty in which the institution was called upon to make forecasts and take relevant decisions. The use of Fund resources, as had been observed on previous occasions, was not a stable and predictable function of a few variables. Changes in interest rates and related Fund charges had joined in the first half of the financial year to make the Fund's income depart significantly from what had been expected. The target of 3 per cent of reserves might be achieved in 1983, but there was no certainty of such a result. Therefore, he fully endorsed the staff's recommendation that the rate of charge and the rate of remuneration not be revised for the time being.

Mr. Prowse said that he too supported the staff's recommendation. He understood that, even in the absence of the deemed income, the net income yielded for the first half of the financial year would not necessarily have led to an adjustment in charges because for the year as a whole, the overall estimate was that the target would be substantially exceeded. If the latest estimates proved correct, the Fund would have earned a surplus totaling more than SDR 150 million over the two financial years. Thus, the Executive Board would have an important issue for consideration at the end of FY 1983. In preparation for the review in the Executive Board of the Fund's income position at that time, he wondered whether the staff could include in its papers information on the purposes of the reserves and the options for using surplus income. He recalled that the discussion at the time of the previous review had been interesting but complex, and the discussion to be held in mid-1983 might be facilitated if authoritative information were available.

Mr. Feito welcomed the midyear review of the Fund's income position, which, like previous reviews, had once again clearly demonstrated how tenuous estimates of the Fund's income were. From an original estimate of a deficit of about SDR 100 million, it appeared that net income of about SDR 60 million could be expected for the year as a whole. As he had stated on other occasions, such differences were more a consequence of the numerous uncertain factors involved in estimating the Fund's income than a reflection on the staff's expertise and admitted conservatism. On that basis, he would not be surprised if, at the time of the review for the full financial year, the actual results showed an even larger net income than was being estimated. In a way, the staff had recognized that possibility by indicating that the actual outcome might depart significantly from present estimates, given the adverse effects on net income of even a slightly higher rate of interest, or of a more active use than expected of unremunerated reserve tranche positions and of the Fund's credit; after all, the effects would be largely favorable if those factors evolved in the opposite direction.

In more general terms, Mr. Feito continued, he was in agreement with the staff paper, and specifically with its conclusions and recommendations. While he had indicated during the past review that, owing to the large margins of divergence, he saw no need to increase the rate of charge from 6.25 per cent to 6.6 per cent in order to cover the expected deficit--a conclusion that it was tempting to view as correct on the basis of the actual results so far--he could for the very same reasons concur with the staff that no adjustment was needed at present. It seemed more prudent to wait for the actual outcome for the year as a whole before taking a decision on the adequacy of the rates of charge or remuneration, or both. Nevertheless, if the actual outcome were a substantially larger net income for FY 1983, the Fund should not hesitate to lower the rate of charge at the subsequent review, at least to the level prevailing before the previous adjustment. The cooperative character of the Fund could be safeguarded only when an appropriate balance was maintained between the interests of debtors and creditors. Just as charges were adjusted upward when needed, so should they be lowered if net income exceeded the agreed target substantially. Present interest rate developments might make such a downward adjustment necessary at the end of the financial year.

Mr. Shaw also supported the recommendations of the staff. Furthermore, he considered it was much more important for the staff of the Treasurer's Department to make prudent estimates, simply because it was easier to distribute a surplus than to try to make up for a deficit.

Some consideration should perhaps be given to changing the rate of remuneration, as Mr. Ainley had suggested, when the end-of-year review took place, Mr. Shaw concluded, together with the possibility of changing the SDR interest rate at the same time.

Mr. Salehkhou noted the welcome development toward a small surplus in net income for the first six months of FY 1983 instead of a deficit, as previously forecast. The improvement was attributable to the four reasons set out by the staff on page 4 of EBS/82/210. He was glad to note that the decline in interest rates was a factor contributing, among others, to the changed financial position of the Fund. He was however somewhat concerned by the lower than estimated use in all categories of the Fund's resources, despite mounting imbalances in the world economy that would normally necessitate much greater use of those resources by members.

With respect to any possible change in the rate of remuneration or charges, Mr. Salehkhou said that his position was similar to that of Mr. Malhotra. While he believed that the rate of charge could be reduced to 6.25 per cent, he could go along with the staff's recommendation, on the grounds that it was too early to act in anticipation of the future outcome. The midyear review was a time for monitoring the overall trend rather than for taking specific action while further developments were still pending.

Mr. Coene said that as none of the options available to the Executive Board would be excluded if a decision were not taken at the present meeting, he could follow the staff's recommendation and leave the decision until the end of the financial year.

Mr. Dallara stated that he approached the midyear review of the Fund's income position essentially from the same point of view expressed explicitly by Mr. Yamashita and implicitly by many other Directors, namely, that the essential purpose was, as the staff had indicated, to determine whether or not additional steps were necessary in order to safeguard the financial position of the Fund. It was apparent, in light of recent and prospective developments, that action was not necessary at the present juncture in order to accomplish that important objective. Like other speakers, he would be tempted, on the basis of such developments, to believe that consideration should be given to an increase in the rate of remuneration. But in common with the staff and other speakers, he noted that an essential ingredient in the approach to the mid-term review should be caution and prudence. By taking a prudent approach, the staff had made the Board aware of the extreme sensitivity of the overall income projections for FY 1983 to potential developments in interest rates. The general difficulty of foreseeing those developments indicated that the prudent course was the one proposed by the staff, and supported by many other Directors, to make no changes at the present time. However, he anticipated that the entire range of issues involved, including the rate of remuneration, would be given consideration at the time of the spring 1983 review of the Fund's income position.

The Deputy Treasurer said that if the rate of charge had not been raised from 6.25 per cent to 6.6 per cent, effective May 1, 1982, the Fund would have had a net loss for the first six months of the financial year of SDR 14 million, and an estimated loss of net income of SDR 40 million for the full year, irrespective of the decision to deem net income for FY 1982 to be part of the income for FY 1983. In addition, the Fund would not currently be in the position of earning net income from the expansion of operations; the margin would have continued to be negative.

If a review had been triggered under Rule I-6(4)(b), the Deputy Treasurer explained, there would have been an automatic adjustment in charges, unless the Executive Board decided otherwise.

A number of staff papers on the SDR would be forthcoming early in 1983, the Deputy Treasurer continued, including one on the SDR interest rate. He regretted that the paper on the Borrowed Resources Suspense Account, which was to have been issued for the present meeting, had not yet been circulated; it would be distributed soon. At present, the balances in the Suspense Accounts were SDR 255 million, due almost entirely to one delayed transaction. The staff considered that the working balance in the account should not be reduced below SDR 150 million, which was a comparatively small working balance, given the necessity of giving notice of calls 90 days in advance. The balances in the Account were determined by operational necessities, not interest considerations. Certainly, particularly when the yield curve was more normal than it had been, the staff was conscious of keeping balances in those Accounts relatively low. But the Fund could not be without funds in the Accounts, and the level of balances was determined by the expected need for resources. The Fund was drawing quite heavily on the borrowing arrangements made with central banks and the Bank for International Settlements; none of the funds called under those arrangements had been invested, even though the Fund had the authority to invest them. But the degree of uncertainty about drawings on the Fund and withdrawals from the Borrowed Resources Suspense Accounts indicated that there was an irreducible minimum amount to be held in the Accounts, which was quite large and certainly not costless. He took note of Mr. Polak's suggestion of prefinancing, which had been discussed previously.

The possibility of financing a form of subsidy account from the Fund's reserves, or out of current income, had also been discussed, the Deputy Treasurer recalled. However, it was not legally possible to divert funds from the General Department for that particular purpose. A short analysis of the purposes and functions of the general and special reserves would be included in future staff papers on the Fund's income position.

The Chairman noted, in response to a question by Mr. Polak, that the staff would look into Mr. Polak's suggestion relating to prefinancing.

The sense of the meeting was clearly that no change in the rate of charge or the rate of remuneration, or both, should be made at present, the Chairman stated, but that the issue should be reconsidered at the end of the financial year, when the full range of options would be placed before the Executive Board.

The Executive Board concluded its midyear review of the Fund's income position in accordance with Rule I-6(4).

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/82/159 (12/13/82) and EBM/82/160 (12/15/82).

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/82/430 (12/10/82) and EBAP/82/432 (12/13/82) is approved.

APPROVED: May 20, 1983

LEO VAN HOUTVEN
Secretary