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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 81/141

3:00 p.m., November 13, 1981

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

Executive Directors	Alternate Executive Directors
M. Abdollahi	O. Kabbaj
	C. Taylor
A. Buira	M. A. Senior
	O. Üçer, Temporary
R. D. Erb	
M. Finaish	T. Alhaimus
	A. Nagashima
J. C. Iarezza	R. T. Salazar
	M. Casey
A. Kafka	J. R. Gabriel-Peña
B. Kharmawan	V. Supinit
	F. Sangare
G. Laske	G. Winkelmann
G. Lovato	C. P. Caranicas
	A. Le Lorier
	A. Alfidja
	D. L. Kannangara
Y. A. Nimatallah	
J. J. Polak	T. de Vries
A. R. G. Prowse	
J. Sigurdsson	L. Vidvei
	Wang E., Temporary

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

Also Present

Administration Department: R. Tenconi, Director. African Department: O. B. Makalou, Deputy Director; S. M. Nsouli. Asian Department: M. J. Fetherston. Central Banking Department: S. P. Leite. European Department: H. Vittas. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; D. K. Palmer, Deputy Director; S. Mookerjee, Deputy Director; M. Guitian, P. J. Quirk, T. M. Reichmann. External Relations Department: A. F. Mohammed, Director; H. P. Puentes. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; R. C. Effros, W. E. Holder, Ph. Lachman. Middle Eastern Department: A. D. Crockett, F. Drees. Research Department: C. F. Schwartz, Associate Director and Director of Adjustment Studies; R. R. Rhomberg, Deputy Director; N. M. Kaibni. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. S. Cutler, T. M. Tran. Western Hemisphere Department: E. W. Robichek, Director; S. T. Beza, Deputy Director; C. E. Sansón, Deputy Director; M. Caiola, A. M. Jul, J. P. Lipsky, H. J. O. Struckmeyer, E. S. Williams. Bureau of Statistics: J. B. McLenaghan. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, C. Bouchard, G. Jauregui, P. D. Peroz, F. A. Tourreilles, F. Yeo T. Y. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, L. Barbone, M. J. Callaghan, R. J. J. Costa, J. L. Feito, A. Halevi, Jiang H., J. M. Jones, P. Kohnert, J. E. Leimone, J. S. Mair, M. Michelangeli, V. K. S. Nair, J. R. Novaes de Almeida, Y. Okubo, C. N. Pinfield, J. Reddy, J. Schuijer, H. Suzuki, P. S. Tjokronegoro, J. F. Williams, A. A. Yousef.

1. BRAZIL - 1981 ARTICLE IV CONSULTATION

The Executive Directors resumed from the previous meeting (EBM/81/140, 11/13/81) their consideration of the staff report for the 1981 Article IV consultation with Brazil (SM/81/205, 10/28/81) together with a proposed decision concluding the 1981 Article XIV consultation. They also had before them a report on recent economic developments in Brazil (SM/81/207, 11/3/81).

The staff representative from the Western Hemisphere Department, replying to questions, recalled that several Executive Directors had questioned the level and composition of Brazil's external debt. Brazil's medium-term and long-term external debt included not only public sector debt and private sector debt with public guarantees, but also the debt of the private sector itself. The growth of that debt had slowed during 1980 and the beginning of 1981, in contrast to developments in earlier years, specifically 1978, when foreign borrowing had been used to build up international reserves. However, the primary objective of the draw-down in reserves in 1980 had not necessarily been to slow the further growth of Brazil's external debt.

For 1981 and 1982, an improvement in the current account of Brazil's balance of payments was projected, so that the need for further sizable borrowing from abroad should diminish, the staff representative remarked. Recent information received by the staff on the evolution of the trade account indicated a more positive outturn than that indicated in the staff papers. The staff now expected that the trade surplus might approach $1 billion, compared with the figure of $500 million mentioned in SM/81/207. The authorities' strategy could best be defined as one that aimed at no real growth of the external debt.

Brazil had a positive attitude toward foreign direct investment, but it had not welcomed such investment indiscriminately, trying rather to ensure that transfers of technology accompanied transfers of funds, the staff representative noted. In 1980, direct investment was $18 billion, or one third of the entire external debt. The transfer of technology had made Brazil an exporter of helicopters, aircraft, sophisticated machinery, and a number of other recently developed products. Brazil had been able to maintain consistently high growth rates in exports--the rate had recently fallen to 18 per cent from about 40 per cent some years previously--because it had been able to penetrate new markets with new products. The authorities believed that the restrictions on profit remittances were not damaging to foreign investors. Since direct investment was greatly export oriented, any fall in direct investment during the previous 12 months might well be attributable to the somewhat weak state of the world economy. Perhaps companies were delaying new investments until export projections appeared more favorable.

The problem of the interrelationship between growth and inflation had been touched upon by Mr. Polak and Mr. Casey, the staff representative observed. The subject, particularly as it related to Brazil, had been studied by many scholars, and no clear answers had been found. Studies had shown that countries could have high growth with either low inflation or high inflation, and that they could have low growth with either low inflation or high inflation. The fact that for many years Brazil had had relatively high growth with high inflation could probably be attributed to Brazil's having learned to live with the system of indexation. Furthermore, the public sector was fairly substantial and had been able to channel a large proportion of investment, thus influencing the course of economic policy more than would have been possible in a full market economy. The drawbacks of the system of indexation had been evident, however, when inflation had accelerated from 40 per cent to 100 per cent in two years.

Turning to the question of actual versus potential output, the staff representative observed that a number of studies had shown that during the previous 25 or 30 years the investment level on average would have been consistent with about a 7 per cent annual growth rate. During some periods, Brazil had achieved double that rate; perhaps during a number of years when growth had been below 7 per cent, unused capacity had been built up. However, when high growth rates had continued for too long a period, accelerated inflation had set in.

Brazil's exchange rate policy had been the subject of inquiries by Mr. Erb, Mr. Polak, and other Executive Directors, the staff representative recalled. The staff had welcomed the change in exchange rate policy introduced by the authorities in late 1980: they had abandoned the practice of advance announcements of the devaluation rate for the cruzeiro on the basis of the projected rate of inflation. The pace of exchange rate depreciation was now in line with domestic Brazilian inflation, not with the inflation differential between Brazil and its major trading partners. During the first ten months of 1981, the cruzeiro had depreciated by 5 per cent in real terms against the U.S. dollar. Data for Brazil's trading partners showed that, during the first seven months of 1981, there had still been an appreciation of the order of 10 per cent. The authorities were clearly opposed to another maxidevaluation; they did not care to repeat the experience of December 1979, when a large devaluation had failed to inaugurate a period of stable expectations. The authorities had decided to resume the practice of frequent and small depreciations at a rate linked to the domestic rate of inflation as they wished to preserve an interest rate differential between domestic borrowing and foreign borrowing that would attract foreign funds. They also believed that recent balance of payments developments and the prospect for a further strengthening justified the present course of exchange rate policy.

A question about the decline in the ratio of fixed investment to GDP had been asked by Mr. Schneider, the staff representative continued. It was true that the ratio had declined from about 25 per cent in 1974 to 22 per cent in 1980. In 1974, the era of high growth rates in Brazil had come to an end. That many investment projects had continued into 1974 and 1975 might have been due to growth expectations of previous years and the absence of serious balance of payments constraints. The authorities had since adopted stricter investment policies and had tried to scale down outlays of the state enterprises.

Mr. Laske had been critical of the large number of exchange restrictions, the staff representative said. However, the number was misleading, for many of the restrictions were of minor economic importance.

A prognosis of economic developments in 1982 was difficult to make at present, as the key budgets for 1982--i.e., for the central administration and for state enterprises, and the monetary budget--had not yet been approved, the staff representative said. However, stable oil prices and stable or declining interest rates seemed likely, and the staff was looking forward to a further decline in the current account deficit during 1982. There was no doubt that the authorities intended to maintain the basic stance of monetary policy. They wanted to maintain rates of expansion of M-1 and of credit that would be far below the projected rate of inflation, and they also intended to reduce credit subsidies. To the extent that economic policy relied more on the price mechanism, monetary policy would be strengthened. As to the fuel tax, in Brazil there was a certain trade-off between direct taxation on fuel and pricing policies; it was difficult to say where one ended and the other began. The subsidy on fuel production had always been shown in the monetary accounts rather than in the fiscal budget. In any event, the current gasoline price of $3.15 a gallon was much higher than the cost of production.

In the 1950s, agriculture had represented about 50 per cent of GDP, and it had since declined to 10-11 per cent, the staff representative remarked. Agriculture had been identified by the Brazilian authorities as a sector that had contributed greatly to previous increases in inflation, owing to bottlenecks and shortages. As for domestic petroleum output, recent discoveries and continued exploration indicated that the official target of 500,000 barrels a day could well be attained by 1985 as foreseen.

To Mr. Casey's question whether unions were now more aware of the effects of the official wage formula, the staff representative replied that the wage formula had resulted in a real wage that was not in tune with market forces. It had also resulted in rising unemployment. The limited downward flexibility of wages, attributable to the wage legislation, meant that employers resorted to outright dismissal, shortened work weeks, or extended furloughs.

The staff had not devoted more attention to the budget deficit, the staff representative explained in answer to Mr. Prowse, because of weaknesses in statistical information that made a thorough analysis impossible. The federal treasury accounts comprised only a small portion of the operations of the Central Government, and the perennial surplus shown in those accounts was meaningless, since it was manipulated by transfers to the monetary budget. The authorities were making great strides in improving the relevant statistics, but it would take some time before public sector accounts lent themselves to a more thorough and meaningful analysis. Mr. Prowse had also asked what drawback could be observed in the 8 per cent growth recorded in 1980. It should be noted that that growth rate had been artificial to some extent because of the interest rate and exchange rate policies followed by the authorities in that year. The policies had resulted in a buildup of stocks and a shift from financial assets into real assets, creating a sort of hothouse atmosphere. When the authorities had reversed their policies, the boom had cooled. Data until October 1981 indicated that industrial output had fallen by 4-5 per cent, and for 1981 as a whole there could well be no growth in industrial output. Nevertheless, output in agriculture and the service sectors remained strong. The authorities predicted overall GDP growth at between 1 per cent and 3 per cent in 1981.

A question whether the industrial sector was being crowded out of the credit market to the benefit of agriculture had been asked by Miss Le Lorier, the staff representative noted. There had been some crowding out at the Bank of Brazil, whose total credit expansion was subject to a ceiling. Commercial banks and other financial institutions had no such ceilings and supplemented their lendable resources with funds obtained from abroad. Thus, a large part of industrial credit was financed with foreign resources and was not subject to the ceilings of the monetary budget. To the question whether credit subsidies were included in the fiscal data, he would reply that the authorities had made progress in incorporating into the fiscal budget more and more operations that were currently under the monetary budget; however, the bulk of subsidies were still outside the fiscal statistics.

He would agree with Mr. Polak that there was a need to show a table on monthly or quarterly price series, particularly at a time when the inflation rate was falling rather than rising, the staff representative from the Western Hemisphere Department mentioned. October 1981 data showed that the general price index had fallen further to 103, while the cost of living index had declined to 100. It now seemed much more likely that the annual inflation rate would be below 100 per cent by the end of the year.

Mr. Kafka reiterated that in 1982 the authorities would attempt to maintain restraint on expenditure and impose higher taxes rather than rely on large open market sales. As to the comments made on the increasing but insufficient restraint on the activities of state enterprises, most of the state enterprises were rather successful. Their managers were not civil servants in the ordinary sense; they were entrepreneurs. When the Government attempted to reduce the rate of expansion of their enterprises, they resisted in every way possible, and it took some time for the Government to catch up with them. At present, however, there was almost no scope for them to escape from the restraints imposed by the Government.

There had also been the interesting question whether the total amount of borrowing by the many public sector enterprises should be included in the public sector deficit, Mr. Kafka recalled. He wondered whether such a deficit would be the same thing as an ordinary budget deficit. In his view, any random group of private enterprises, if examined, would be found to be borrowing. Were they therefore to be considered in deficit? Of course, the Brazilian authorities recognized the need to restrain borrowing of public sector enterprises.

Some Directors' questions about the monetary and fiscal system had seemed to suggest that the so-called open accounts for preferred credit were totally unlimited, Mr. Kafka said. In fact, the limits consisted of the basis on which access to open-account credit was calculated. Moreover, as the staff representative had explained, the official banks were subject to an overall limit, while the private banks were subject to a cost restraint, since they could exceed the general credit ceilings only by borrowing expensive funds abroad. Lending rates were high in real terms. For instance, September 1981 data indicated that the real rate of interest for investment banks was 17 per cent; for up to 90-day deposits with commercial banks, 47 per cent; and for finance companies, between 23 per cent and 147 per cent. He had no doubt that credit subsidies would be reduced further, as they had already been in 1981. Some Directors had asked whether it would be better to give credit subsidies explicitly through the budget than implicitly through the Central Bank. He would respond personally that for a year or two, after three successive bad harvests, agriculture had had to be recapitalized, and credit subsidies had been useful for that purpose. Now that agriculture had been recapitalized, they could be cut down and, with the exception of the northeast region, perhaps eliminated altogether.

A considerable reduction had already occurred by the end of September in the current account, both in nominal terms and in real terms, as a result of the swing in the trade account, Mr. Kafka observed. In nominal terms, the swing would be about $2 billion, or close to 20 per cent, and larger in real terms.

On the debt burden, Tables 27 and 28 of SM/81/207 showed that the total debt burden--interest and amortization--had peaked in 1979 in relation to both exports and GDP, Mr. Kafka remarked. It had since fallen and would fall further in 1981, as exports were growing faster than the debt. As far as he was aware, Brazil had never had any difficulties with bankers. In 1980, new loans obtained had amounted to $1.2 billion in the first quarter, $2.1 billion in the second, $2.7 billion in the third, and $2.9 billion in the fourth. The country had gone on to borrow $2.4 billion in the first quarter of 1981, $4 billion in the second quarter, and $3.7 billion in the third. He did not have the figure for fourth-quarter borrowing, but the authorities were attempting to reduce the rate of borrowing owing to possible inflationary effects.

The question had been asked whether Brazil should reduce its debts or raise its reserves, Mr. Kafka went on. A $1 billion rise in reserves represented an improvement of 14 per cent; a $1 billion decline in the debt represented an improvement of 1.4 per cent. While it would be better to raise reserves, he agreed with Mr. Polak that it would be even better to receive a cost-free allocation of SDRs; but Brazil's quota was too small in relation to its reserves and economic size to make allocation a feasible substitute for borrowing reserves. Brazil had never had any debt management problems since it had begun to borrow on a large scale in about 1968. The country had always been careful not to accept short-term loans. The minimum term for a loan, except for clearly commercial transactions, was eight years. Moreover, the ratio of amortization to debt was falling.

Brazil had the reputation of being one of the most liberal countries in accepting foreign direct investment, Mr. Kafka noted. There were no restrictions on remittances. There was a surtax on remittances that averaged more than 12 per cent during three years, in relation to original capital plus reinvested earnings. To his knowledge, no company had ever paid that surtax: the growth of the Brazilian economy obliged them to reinvest. The average rate of reinvestment--not on originally foreign capital only but on the total of the original investment plus all reinvested earnings--had remained at 5.5 per cent for several years.

Much of Brazil's borrowing was really a disguised form of direct investment, being loans by head offices to their subsidiaries, Mr. Kafka explained. The practice was due to an illogical feature of the tax law that Brazil, like all other countries, had adopted and that permitted interest, but not dividends, to be deducted from profits. The authorities currently had that feature under review. The only objection to changing the law was that Brazil did not have a double taxation agreement with all its investment partners, including the United States, that would exempt profits taxed in Brazil from U.S. taxation altogether. If the Brazilian authorities could obtain double taxation agreements of that kind, generally there would be a very strong incentive to change the law. If direct investment were added to loans that were a disguised form of direct investment, it would be seen that about 45 per cent of the total represented direct investment, while 55 per cent represented borrowing.

One Executive Director had asked whether the Brazilian authorities intended to continue a beggar-thy-neighbor policy of depreciation, Mr. Kafka recalled. The word "continue" was incorrect. Beggar-thy-neighbor policies were neither their practice nor their intention. They would continue to bring about a real depreciation of the cruzeiro until they reached the point where they could remove restrictions and subsidies without fear; they still did not feel comfortable with the present level of reserves.

There was no discriminatory taxation in Brazil, Mr. Kafka observed. Brazil was collecting the countervailing duties that the United States would otherwise collect in certain cases. On growth and inflation, he would like to stress that no one in Brazil believed that inflation promoted growth. The Brazilian authorities reconciled growth with inflation by the indexation of wages, of public utility rates, and of the tax system, and by the absence of controls on prices. Controls had proved inefficient each time they had been tried in Brazil. A number of countries had instituted very efficient controls and had thereby managed to ruin certain sectors of their economies.

The capital/output ratio in Brazil was low, less than 3:1, Mr. Kafka observed. The maximum domestic savings rate had been 23 per cent of GDP, a figure which, with stock accumulation, made possible a growth rate of 7 per cent a year. As the relatively lower savings ratios of recent years were replaced by higher ones, the long-term growth rate should rise to 7-8 per cent.

The cost of inflation even under a system of indexation was bothersome, Mr. Kafka said. Many firms had been paying three-monthly wage adjustments since inflation had been so high, but even after a three-monthly adjustment with 100 per cent inflation rate, on the day before the next adjustment a worker would have lost 20 per cent of his initial real wage, and 10 per cent of his average real wage. The Government intended to bring down the inflation rate, to the extent that it could do so without prejudicing the necessary depreciation. Inflation even with indexation could be reduced either through appropriate strong demand restraint, which restrained growth as well, or through a favorable supply shock.

The crisis in the automobile industry was worldwide, Mr. Kafka noted. The Brazilian authorities no longer counted on the automobile industry as a leading sector. Brazil had a multipolar development; the poles destined to be the most important in the next five or ten years were agriculture and the mineral and industrial region being developed in the Amazon largely by foreign capital and also assisted in all probability by the World Bank.

Finally, the Brazilian authorities did not consider the practices listed on page 13 of SM/81/205 to be multiple currency practices, Mr. Kafka concluded.

The Chairman made the following summing up:

> In concluding this comprehensive and interesting discussion of the 1981 Article IV consultation with Brazil, I would note that there was general agreement with the thrust of the staff appraisal. Executive Directors warmly commended the substantial adjustment measures taken by the Brazilian authorities since late 1980 to deal with the internal and external imbalances that had developed. These measures resulted in a considerable strengthening of Brazil's balance of payments; through October 1981, there was a trade surplus of $600 million, in lieu of the past years' trade deficits. As could be expected, the tightening of domestic

demand led to a slowdown in economic growth in 1981, but some improvement in this area may develop next year. Directors also commented favorably on the freeing of the economy from price controls and restrictions and other steps, such as a reduction in the number of state enterprises, actions that will contribute to an improvement in the overall economic efficiency.

Directors welcomed Brazil's efforts to reduce domestic demand pressures. They commended the Government's quick action to raise the buoyancy of the tax system. They noted that the scheduled reduction in export subsidies should help to improve the government revenue base next year. The steps to rehabilitate the social security system were also welcomed. Directors strongly emphasized the importance of slowing the growth of public spending for the anti-inflationary effort, particularly if the momentum toward a declining rate of price increases was to be maintained.

Directors supported the tightening of monetary policy that had been taking place. They welcomed the partial freeing of domestic interest rates as a means to strengthen Brazil's external position and encourage domestic savings. However, they noted that substantial interest subsidies still remained in effect and urged the authorities to improve monetary control through the continued reduction in those subsidies.

On the exchange rate management pursued since late 1980, Directors noted that the policy of depreciating the cruzeiro at frequent intervals in line with the rate of domestic inflation should provide for a real depreciation of the currency and thus facilitate the gradual elimination of export subsidies and import restrictions. A number of Executive Directors regretted the introduction of new restrictive practices. They took note of the schedule for the elimination of the tax credits on industrial exports and urged the authorities to abolish those and other exchange restrictions.

Directors commented that Brazil's wage formula appeared to have hampered efforts to reduce inflation and probably also had had an adverse effect on employment. They encouraged the authorities to pursue their efforts to find ways to make wage policy more flexible.

Directors noted that Brazil's efforts to reduce the country's dependence on imported oil were beginning to bear fruit. They felt that this outcome was, to a considerable extent, due to the adoption of appropriate pricing policies, and they urged the authorities to continue such policies.

To sum up, Directors concluded that Brazil's present policies had been successful in bringing about substantial external adjustment and in initiating a reduction in inflation. They urged the authorities to continue with these policies and to strengthen them as required to restore external and internal balance without unnecessary delay. It was also noted that the management of Brazil's substantial external debt would be eased with a successful implementation of the stabilization effort.

The Executive Board then took the following decisions:

Decision Concluding 1981 Article XIV Consultation

1. The Fund takes this decision relating to Brazil's exchange measures subject to Article VIII, Sections 2 and 3, and, in concluding the 1981 Article XIV consultation with Brazil, in the light of the 1981 Article IV consultation with Brazil conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund welcomes those actions taken by Brazil since the last consultation which contributed to a liberalization of the exchange system with respect to export taxes and contribution quotas. It notes that the new multiple currency practice arising from the tax credits given to certain industrial exports is intended to be temporary. The Fund encourages Brazil to resume the process of liberalization, and hopes that early steps will be taken to eliminate the multiple currency practice arising from the extension of the financial transactions tax to specified import payments, and to terminate the remaining bilateral payments agreement with a Fund member. The Fund urges Brazil to eliminate at the earliest possible date the tax on certain industrial exports to a Fund member. In the circumstances of Brazil, the Fund grants approval to the multiple currency practices and restrictions on payments and transfers for current international transactions of Brazil that are described under points 1, 2, and 3 on page 13 of SM/81/205 (10/28/81) until December 31, 1982, or the completion of the 1982 Article IV consultation with Brazil, whichever is earlier.

Decision No. 6987-(81/141), adopted
November 13, 1981

2. WORK PROGRAM

The Executive Directors considered a revised tentative schedule of Executive Board meetings for the period until end-April 1982 (Secretary's Circular No. 81/161, Revision 2, 11/12/81).

The Managing Director made the following statement:

This is the customary and appropriate time for us to review the tasks that we have in hand and to have an exchange of views on our work program for the period until the Helsinki meeting of the Interim Committee in the second week of May 1982. We have the benefit at this time of having heard so recently the views and concerns of members of our Board of Governors during the Annual Meeting; we should also take into account the deliberations during the recent meetings of the Interim and Development Committees.

I. SDR Matters

The Interim Committee urged the Executive Board "to continue its deliberations on the question of whether there should be a further allocation of SDRs at the present time," and recommended that "the scope of such deliberations should include the proposal to extend the third basic period and continue the rate of allocation established in 1978." Among relevant considerations, we should have in mind the legal aspects of a possible extension of the present basic period of SDR allocations. A paper on this subject will be prepared. It is also my intention, following my return from abroad in early November, to have informal contacts with Executive Directors to help me ascertain whether there is sufficiently broad support among participants for a proposal for further allocations of SDRs immediately after the conclusion of the present basic period. If the soundings were positive, it would be necessary to act rapidly. On the other hand, if my informal soundings next month indicate that the necessary broad support has not materialized, we will, as directed by the Interim Committee, continue our deliberations on this matter in the months ahead prior to the Helsinki meetings.

When we had our last exchange of views on our program of work, several Directors requested an issues paper on "The Evolution of the SDR in the International Monetary System." I have noted the frequency with which reference was made in the course of the Annual Meeting to the need to give attention to the future role of the SDR in the international monetary system. We are planning for the period between now and the Helsinki meeting to provide three papers on this subject. The first will be a broad-ranging issues paper on "The Evolving Role of the SDR in the International Monetary System." This paper, already on our work program, will explore the future role of the SDR and the several channels along which it may expand in the future. In doing this, due attention will be given to the many changes that have taken place in the international monetary system, as well as in the instrument itself, since the SDR was conceived in the late 1960s. This paper will be circulated in the latter part of January and can be discussed in the second half of February. A brief outline of this paper will be circulated and discussed in the coming weeks in order to provide some general guidance to the staff. (Discussion of this outline will be scheduled together with the legal paper referred to in the preceding paragraph.) Two other papers of specific and narrower scope are also planned: "Possible Further Improvements in the Usability of the SDR," and "The Evolution of the Private SDR"; they should be ready for discussion by the Executive Board together with the first one.

II. Eighth General Review of Quotas

Remarks of many Governors during the Annual Meeting served to re-emphasize the principle that quotas must remain the basic source of finance for the Fund. In its communiqué, the Interim Committee agreed that the Eighth General Review of Quotas should be expedited and, noting that the present quotas of a significant number of members do not reflect their relative position in the world economy, it reaffirmed that "the occasion of the Eighth General Review should be used to remedy the situation within the context of a general enlargement of the Fund." We have already had on Friday, October 16 an interesting discussion of two staff papers addressed to statistical examination and variability of quota formulas. Further technical tables and papers requested by Executive Directors during that meeting will be prepared and circulated soon.

A special paper, "The Size of the Fund in the 1980s," is being prepared to provide a longer-term perspective within which the quota review exercise should be conducted. It is planned to place this paper on the Executive Board agenda for December 9. Additional papers will be prepared by the staff on the basis of guidance received during that Board discussion. The consideration of the various technical questions relating to the quota exercise should hopefully have been completed by the time of the Helsinki meetings and we might well have finished by then our consideration of the question of the size of the Fund. Such a schedule should enable us to take up the matter of the relative shares of equiproportionate and selective increases in the post-Helsinki period.

III. Fund Liquidity and Borrowing by the Fund

As part of our continuing review process, the paper "Fund's Liquidity and Financing Needs" will be brought to agenda on November 30. When we discussed the paper entitled "Guidelines for the Amount of the Fund's Outstanding Borrowing" last September 4, we agreed to revert to the matter soon after the Annual Meetings when more information regarding the Fund's liquidity position would be available. I shall soon submit for your consideration a new paper, "Guidelines on Borrowing by the Fund," and we can conveniently add that to the Board agenda for November 30. We will also circulate shortly a paper entitled "Fund Borrowing from Central Banks: Range of Potential Lenders"; it is proposed for

Board discussion on November 16. Papers on short-term or medium-term borrowing arrangements with monetary authorities of member countries will be submitted to the Board as and when such arrangements have been concluded.

IV. Surveillance and Adjustment Programs

A paper on "International Aspects of Policies of Monetary Restraint," a subject which is close to the heart of the Fund's surveillance responsibilities, will be circulated in good time for Board discussion on November 20. Several Executive Directors have asked for a paper dealing specifically with the subject of the effectiveness of exchange rate and interest rate policies in developing countries. The staff has such a paper in hand; it will be circulated to you around mid-November, and we can plan on a Board discussion for December 4.

A number of Executive Directors have indicated that they would welcome an opportunity to discuss current exchange rate developments in rather more depth than is possible during Board reviews of the World Economic Outlook and on other similar occasions. Accordingly, I should like to propose that we schedule a seminar on current exchange rate developments for December 11. The staff will provide a short note on questions which you might wish to address. In addition, as background, the December issue of the monthly charts on exchange market developments will be available, as well as the paper, "International Aspects of Policies of Monetary Restraint," that will have been discussed in the Board in November.

The staff also expects to complete and circulate to the Executive Directors before the end of December, a paper dealing with "The Fund's Approach to Nonmarket Economies." I recall that several Executive Directors had indicated that they would wish to have more than the customary two weeks between the circulation and Board discussion of this paper. It will accordingly be scheduled for discussion with this consideration in mind and can be brought to agenda perhaps toward the end of January.

Under the 1977 Board decision on surveillance, our work program should include the biennial review of the document entitled "Surveillance over Exchange Rate Policies" and also an annual review of the general implementation of surveillance over members' exchange rate policies. These items will be scheduled for Board discussion in the first half of April. As a companion piece, the Board will also receive a paper reviewing exchange arrangements since the Second Amendment to the Articles.

Finally, I should add that the staff work on the assessment and evaluation of adjustment programs continues on an ongoing basis. A new paper, "Review of Stand-By and Extended Arrangements" is planned for inclusion in the work program for the period following the Helsinki meetings.

V. Use of Fund Resources

On this topic, I would like to begin with the supplementary financing facility Subsidy Account which, thanks to those countries that have agreed to contribute to it, will become operational on receipt of funds from the contributors. It is anticipated that a paper entitled "SFF Subsidy Account--First Disbursement for Period to June 30, 1981" will be ready for Executive Board discussion on November 13.

Several Executive Directors have requested a paper dealing with Fund policies regarding assistance to members affected by natural disasters. We are planning to bring such a paper to the Board for discussion in the course of December.

For some time there has been interest in taking a look at the question of requirement of cooperation in connection with the use of Fund resources under the compensatory financing facility. A paper on this subject will be placed on the agenda during December. Two other aspects of the compensatory financing facility need also to be looked at. One relates to the operation of the provision in the decision which provides that a member making a purchase on the basis of estimated data must represent that, if it is subsequently shown that the amount purchased exceeds the amount that could have been purchased on the basis of actual statistical data, the member will make a prompt repurchase in an amount equivalent to the overcompensation. The second aspect is the difficult but important question, alluded to by several Executive Directors on different occasions, of the considerations that should determine whether a shortfall is "largely attributable to circumstances beyond the control of the member." Both these aspects are being examined by the staff with a view to eventual consideration by the Board.

A paper will be issued proposing an amendment to the present decision on "Attributions of Reductions in Fund's Holdings of Currencies" whereby a member will have the option to attribute some reductions in the Fund's holdings of its currency (in addition to those arising from sales of currency) to its reserve tranche or to any of its obligations to repurchase--e.g., reductions in holdings arising from payment of remuneration or payment of interest or repayment of borrowing. This paper will be issued for decision on a lapse-of-time basis.

VI. World Economic Outlook

Preparations for the next meeting of the Interim Committee should include another full-scale exercise on the World Economic Outlook (WEO). It is proposed that a General Survey, together with a full draft of the published WEO report, be issued on approximately March 29, and that the Board discussion take place on April 19 and 21. The General Survey would be short, drawing on the main findings and issues contained in the draft of the WEO publication; the latter would be a substitute, in effect, for the several papers (six in March-April 1981) that in the past were issued along with the General Survey itself. Under this proposed schedule, Executive Directors would be asked to give their comments on the draft WEO publication at any time during the three weeks preceding the Board discussion and for a few days thereafter. This new procedure, much simpler than that of the past, would enable the published report to come out during May.

VII. Administrative Matters

The first administrative item that had to be taken up, to enable the construction work to proceed smoothly, concerned revised cost estimates for Phase IIa of the building. The paper was distributed and placed on the agenda for November 4.

In recent years, Executive Directors have taken advantage of the occasion of the mid-year budget discussion to take stock of our work in general and to voice views regarding work priorities. My intention is to circulate my mid-year budget statement in time for a Board discussion on December 14; for the same meeting the Board will also have available a mid-year review of the Fund's income position.

We shall also be taking up some compensation related matters that were identified for subsequent consideration at the time when we concluded the 1980 Staff Compensation Review last June. We had then agreed that a check would be made to see if inclusion of selected New York companies in the 1980 survey for A-E staff would have altered the results on which the increase for these staff had been based. A paper reporting on the outcome of this check of the New York market is planned to be brought to the Board in December. The Review of Expatriate Benefits is also under way and the paper should be ready for Board consideration by February. In connection with this review, I should mention that the decision relating to the Home Currency Option provided for an initial period of three years which ends on June 30, 1982. So the Board will need to decide upon the future of the Home Currency Option sufficiently in advance of the expiration date. We propose to do this in conjunction with the Review of Expatriate Benefits as a whole. I should add that the 1982 Staff Compensation Review also forms part of the present work program. Finally, the Administrative Budget for FY 1983 is planned for agenda on April 16.

VIII. Other Matters

In anticipation of the Helsinki meetings, we will need to consider a draft provisional agenda for the Interim Committee around mid-April. At about that time, we will also need to consider, as a Committee of the Whole, the annotated agenda for the

Development Committee meeting and the final report of the Task Force on Non-Concessional Flows. As you are aware, the precise timing for our discussion of the Development Committee items will need to be worked out later in coordination with the Executive Secretary of the Development Committee and the World Bank.

I should also mention the following operational topics that will need the Board's attention during this period:

(i) Designation Plan and Operational Budget for December 1981-February 1982 (Board agenda on December 11) and for March-May 1982 (Board agenda on March 12).

(ii) As agreed earlier this year, the staff will prepare a paper on "Review of Policy on Transfers of SDRs and Currencies through the Operational Budget," and it will be brought to the Board in late March or early April.

(iii) Toward the end of the financial year, on April 28, we will have on our agenda a paper on "Review of the Fund's Income Position and Disposition of the Net Income for FY 1982."

In response to the request of several Executive Directors, the staff has been doing work on the experience with monetary unions and comparable arrangements. A study on monetary integration among the member countries of the Economic Community of West African States (ECOWAS) is near completion and similar studies are planned for the West African and Central African Monetary Unions and the East Caribbean Currency Authority. In this connection, the staff is also looking at the experience of countries in which the currency of another country circulates as legal tender and the similarities between such arrangements and currency unions. A paper bringing together this work will be prepared for Board discussion.

The comprehensive study on "Economic Policies for the Oil Exporting Countries" is in its concluding phase and is expected to be ready for circulation by the end of the year.

There will also be a need, at an appropriate time, to take up the two draft Resolutions that have been referred to us for consideration by Resolution No. 36-12. In this, of course, we would need to coordinate our work with the Executive Directors in the World Bank.

IX. Area Departments' Work Program

We have to anticipate a demanding work flow from the area departments. Even in purely quantitative terms, the number of staff reports coming to the Board during this period can be expected to include about 50-60 Article IV consultations and about the same number concerning the use of Fund resources (including a number of requests under the compensatory financing facility). Moreover, the emphasis laid by the Interim Committee on the need for the effective implementation of the Fund's surveillance role in a uniform and symmetrical manner serves to reassert the importance of Article IV consultations as well as the Board's work relating to the use of Fund resources. Another qualitative dimension for staff reports on use of Fund resource items stems from our discussion in the Board on last September 9 of upper credit tranche adjustment programs and conditionality. The procedures that we then agreed upon should result in more standardized presentations of country programs as well as full and systematic reviews of programs during and after their implementation. The major emphasis that we have thus been placing on the implementation of effective adjustment programs by members making use of the Fund's resources in the upper credit tranches has been strongly endorsed by the Interim Committee; it will certainly continue to be an essential part of work in the coming period.

I suggest that we exchange views on the work program during this Board meeting. A draft tentative schedule of Board meetings, including proposed firm dates for discussion of major policy items, has been circulated (Secretary's Circular No. 81/161). A mid-term review of this work program will be carried out in January 1982.

The Managing Director added that the supplementary financing facility Subsidy Account had been expected to become operational upon receipt of funds from contributors. However, there had been delays in the receipt of some contributions, so that the paper would be placed on the agenda after the countries concerned had indicated when the contributions would be paid.

The Executive Board would re-examine paragraph 7 of the 1979 Decision on the Compensatory Financing of Export Fluctuations, which provided that a member was expected to represent that, in the event of overcompensation arising from the use of estimated data for calculating the export shortfall, it would make a prompt repurchase in an amount equivalent to the overcompensation, the Managing Director noted. At a discussion of the topic at EBM/81/134 and EBM/81/135 in connection with Sudan's request for a rescheduling of a repurchase, the consensus among Executive Directors had been that the general policy issue should be dealt with during the current program of work. Staff papers dealing with legal and operational aspects of that provision would be brought to the Board before the end of March.

As he had mentioned, he intended to have informal contacts with each Executive Director during the coming few days to help him to ascertain the degree of support among participants for a proposal for making further allocations of SDRs after the conclusion of the present basic period, the Managing Director said. The staff paper on the legal aspects of a possible extension of the present basic period was ready for circulation. A second paper, currently in draft outline form, dealt with the evolving role of the SDR in the international monetary system. Executive Directors might wish to discuss the two papers jointly or separately.

Finally, the Managing Director continued, there had been three recent scheduling revisions. First, Board consideration of the papers on Fund liquidity and financing needs and on guidelines for borrowing by the Fund had been shifted from November 30 to December 7. Second, the paper on the Fund's authority to negotiate note purchase agreements when borrowing from central banks and other official entities had been placed on the agenda for November 23. Third, the paper on the size of the Fund in the 1980s had been shifted to December 18.

Mr. Buira welcomed the Managing Director's proposals on SDR allocations, the future role of the SDR, and the exploration of channels along which it might expand; he had particular interest in the papers on the further improvements of the usability of the SDR and the evolution of the private SDR. The Fund should be thinking of developing the SDR as an international asset that would take the place of national currencies for denominating debts and effecting international payments. The minimum condition would be for governments to allow their citizens to use SDRs in international contracts; a major difficulty lay in securing general acceptance of a self-denying ordinance by countries whose currencies were used as international reserve assets. In thus promoting the role of the SDR, the Fund would properly be exercising leadership toward a more structured international monetary system.

However, for the SDR to be important it had to exist in significant amounts, Mr. Buira observed. It was widely recognized that the supply of international reserves was greatly influenced by capital mobility and by floating exchange rates among the major currencies. In consequence, it had become more difficult to establish control over the supply of international reserves, and there was much less conviction that simply controlling the supply of reserves could contribute significantly to stabilization. Indeed, there seemed to be little hope that the monetary system would contribute to stability unless a simultaneous move occurred toward a more viscous exchange rate system in which major exchange rate changes required deliberate decisions, and unless a reserve regime were introduced in which the quantity of reserves was subject to deliberate control. The latter goal could be accomplished either by a national currency standard under which control would be exercised by the central banks of reserve currency countries, or by an SDR standard under which control would be exercised by the Fund. Furthermore, issues of SDRs would add to countries' reserves without building up external debt. In any event, the role of the SDR had to be seen in the context of the creation of world liquidity and reserves. The liquidity creation mechanisms of the world economy should therefore be reviewed.

On the Eighth General Review of Quotas, Mr. Buira remarked that Executive Directors would have to show a great deal of imagination in considering the size of the Fund in the 1980s. They should go beyond a purely mechanistic approach and should exercise vision in anticipating the evolution of the international economy and payments problems. The role of the Fund in the post-Bretton Woods system of flexible exchange rates and expanding capital markets had to be considered explicitly. The staff should be ambitious in approaching the matter, so that the Fund could have a positive impact on what seemed to be a difficult future.

In examining the effectiveness of the exchange rate and interest rate policies in developing countries, the staff should exercise freedom of thought and analysis to the fullest extent and should look closely at the real world, keeping in mind all the particularities of countries that could have a bearing on the matter, Mr. Buira recommended. Further work also needed to be done on determining the right size and pace for exchange rate adjustments and on the effects of exchange rate changes on output and employment.

The question of the Fund's approach to nonmarket economies was becoming increasingly important as a greater number of countries with such economies joined the Fund, Mr. Buira observed. Some of the traditional approaches taken by the Fund to balance of payments adjustment, particularly the techniques of financial programing, would seem to be of limited use in nonmarket economies. An examination of the Fund's normal practices from a different perspective could help Executive Directors to understand the merits and limitations of those practices and might, in time, suggest improvements in the Fund's work elsewhere.

As to surveillance, Mr. Buira hoped that the paper would consider the issue of achieving symmetry in the adjustment process. Adjustment was the responsibility of both surplus and deficit countries. At present, the burden of adjustment as well as the burden of conditionality rested on deficit countries. He welcomed the proposed review of stand-by and extended arrangements and expected it to benefit from the Executive Board discussion on procedures for a clearer and more systematic presentation of programs. However, he had noted some resistance by certain staff members; unless Executive Directors examined the papers closely and insisted on the new approach, bureaucratic inertia would tend to assert itself, perpetuating the old ways in which papers could easily be vague, programs obscure, and assumptions and inconsistencies hidden. For that reason, there would be considerable advantages in placing a concise and systematic presentation of each adjustment program in a technical appendix.

Since financial programing was one of the main activities of the Fund, its expertise in the field should be unchallengeable, Mr. Buira observed. However, the Fund's approach to programing, developed more than 20 years previously, had to be reviewed and extended to adapt to current conditions. Its main virtue lay in its simplicity. The Fund had perhaps been the first to rediscover the relationship between money or domestic assets and the balance of payments. However, it still lacked the means of analyzing the impact of programs on important variables like prices, income, employment, investment, and growth. In fact, even the exchange rate changes sometimes recommended under Fund programs were introduced on an ad hoc basis rather than integrated into an analytical framework, a feature that might explain why devaluations were often required as a precondition of a program with the Fund. As to the length of the program and the cost of adjustment, the staff seldom asked what would be the best rate of adjustment.

The Fund's theoretical approach to adjustment, centered on the management of demand through monetary control, was suitable for the solution of short-term demand problems, Mr. Buira said. However, it seemed ill adapted to treating the structural disequilibria that were pervasive in the contemporary world and appeared with particular severity in developing countries. A great deal of analytical work would be required to develop the Fund's approaches to conditions in those countries so that adjustment programs would ensure a balance between internal and external policy objectives. A first step would be to provide information on the cost of alternative paths of adjustment and on the possible mixes of policies that countries could adopt to reach a certain goal. The Fund should develop a theoretical and operational framework for designing and monitoring structural adjustment programs. Much of the work would be done by the Research Department and the Exchange and Trade Relations Department, but the area departments should also play a role.

In December 1978 a number of Directors had expressed an interest in seeking a wider geographical distribution of the staff and had asked that particular effort be made to recruit qualified candidates from Africa and Latin America, Mr. Buira recalled. In April 1979 many Directors had expressed concern over what appeared to be a narrow definition of qualifications that could bar many excellent potential candidates. At that time, it had been agreed that, without establishing a quota system, the Fund should attempt to broaden the range of candidates because the Fund should not limit recruitment by imposing a specific set of criteria, and because the Fund needed to enlarge the geographical distribution of recruitment. It had been agreed that the Fund would attempt to find ways to broaden the academic background of those recruited and give more weight to experience gained by those dealing with financial or economic problems in their own countries, either in governments or in central banks, and that some years' experience could be a criterion for recruitment. Since that time, efforts had been made to improve the geographical distribution of the staff and to recruit candidates from underrepresented areas, and improvements seemed to have been made. However, a paper setting forth the progress achieved so far, describing Fund policies on recruitment of both young professionals and midcareer and senior people with professional experience in their own countries, reviewing advances made over the previous two or three years, and presenting proposals for an improvement in the geographical balance could help the Executive Board to advance more rapidly toward the desired objective.

Mr. Erb commented that it would make sense for the Executive Board to discuss the two SDR papers on the same day, but he was flexible on that point. Perhaps at some stage a one-day or two-day academic seminar could be held, conducted by scholars from around the world who had worked on international liquidity, exchange rates, and the role of the SDR, so that Directors could bring themselves up to date on theoretical developments in those fields.

With respect to the paper on the size of the Fund in the 1980s, Mr. Erb said that he agreed with Mr. Buira that the Fund staff should consider the question from a broad perspective. An overview paper should be written on the size and structure of the Fund in relation to the financial roles that it played; the paper could help to provide a framework for specific discussions on guidelines for Fund liquidity. He hoped that the specific papers that the Executive Board would be reviewing addressed the relation between the term "structure of the Fund's financial assets" and the term "structure of the Fund's resource base."

As the Executive Board reviewed the exchange rate policies of countries during Article IV consultations and tried to integrate those reviews in a surveillance exercise, he hoped that the Board would try to develop a cohesive view of the array of government policies designed to influence exchange rates, Mr. Erb continued. Those policies included not only direct exchange market intervention but also reserve management and liability management policies, and the use of exchange restrictions and capital controls, insofar as they were designed to affect a country's exchange rate. On another topic, he hoped that part of the proposed Fund study on nonmarket economies would be devoted to a review of the economic literature on the role of prices in centrally planned economies.

He would also agree with Mr. Buira that at some point the Board should discuss the general framework for adjustment programs, Mr. Erb went on. In pursuing the broader question of the theoretical underpinnings of IMF adjustment programs, the Board should draw on the experience gained in the area departments and the Exchange and Trade Relations Department. The Board might also find it appropriate to consider specifically the role of technical assistance and resident representatives in the implementation of Fund programs. Recently there had been an increase in the number of requests for technical assistance, many of them in countries where the Fund had programs. Perhaps an expansion of the services of technical assistance and resident representatives could be of use in countries where the Fund had specific programs.

He could support the proposed schedule for discussion of the World Economic Outlook, Mr. Erb continued, on the assumption that the Executive Board would have an opportunity to consider the topic in the course of regular meetings and that the final product would fully reflect the views of the Board. As to administrative matters, his colleagues at the U.S. Treasury wished to review the issue of first-class air travel and the related issue of the need to make IMF practices conform to the standards of other international institutions. Finally, if it was at all possible, he would prefer that the proposed December 11 seminar discussion on current exchange rate developments be held either earlier that week or later in the month.

Mr. Polak commented that he would prefer the Board to discuss together the legal paper and the economic paper on the proposal to extend the present basic period for SDR allocations, with discussion of the economic paper first. On another topic, he noted that the idea of a seminar on the substitution account seemed to have been dropped. Perhaps the seminar on SDRs proposed by Mr. Erb could be combined with a seminar on the substitution account. More than 11 years had passed since the Fund had held a seminar on reserve questions conducted by outside experts.

With respect to the second paragraph in Section II of the Managing Director's statement, he did not share the view on the segmentation of the steps to be taken to arrive at a conclusion on the Eighth General Review of Quotas, Mr. Polak said. The Board could not solve technical questions before other questions had been solved; the Board did not have to delay discussion of the question of selective increases until agreement had been reached on the size of the Fund. All he would ask was that the promised paper fully cover the ground mentioned by Executive Directors. The technical tables requested ought to include an analysis with cross-tabulations of four different assumptions. Those four would be the role of variability of exports, the amounts that might be available for selective increases on the basis of the present size of the Fund, various formulas by which relative shares could be revised in the light of calculated quotas, and the effect of the new data on the quota shares of main groups of countries together with the adjustments that might be made to affect those shares.

Mr. Buira recalled that he had made a request, supported by Mr. Polak, for the staff to write a paper on seeking a greater balance between the quotas of debtor countries and those of creditor countries, a basic requirement for a financial institution like the Fund. Simulations could be prepared of how the Fund would work if there were an approximate balance between the quotas of major industrial countries and capital-surplus oil exporters on the one hand, and the quotas of likely debtor countries on the other.

Mr. Casey remarked that the scheduling of work for the Eighth Quota Review seemed broadly appropriate, though there was some bunching of items in December. He welcomed the notice given by the Managing Director of the informal talks on SDR allocations and the fact that the relevant legal papers would be available in advance.

He wondered whether there might be a special mini-work program that would schedule in detail the possibility of Executive Board consideration of various aspects of the Eighth Quota Review. It might be helpful if Fund liquidity and the size of the Fund could be discussed closer in time, since there were obvious connections between them. Any advance information on the World Economic Outlook would also be helpful in those discussions.

His chair welcomed the opportunity to hold more in-depth discussions of current exchange rate developments and the proposed paper on natural disasters. He hoped that the paper on the evaluation of adjustment programs would incorporate what had been termed the "causes of derailment" of some of them. The paper should try to distinguish between programs that went wrong because of a lack of political will and those that went wrong because of an inadequate capacity for implementation on the part of the authorities concerned.

As a relative newcomer to the Board, Mr. Casey commented, he would like to see a seminar given by the legal staff on general matters of legal interpretation and legal drafting. Furthermore, the staff should write a summary paper describing the basic Fund philosophy, on such questions as why the Fund regarded external and internal stability as a necessary precondition for sustainable growth. Many different aspects of the question had already been examined, but the staff should try to draw all the strands together and to demonstrate empirically why, for example, inflation was inimical to productive investment and why balance of payments deficits hindered long-term growth. Such a paper would serve as a justification of Fund adjustment policies and of the revolving character of the Fund's resources.

Mr. Sangare noted that his chair had no problems with the proposed work program. When SDR allocations had been discussed in August 1981, a large number of Executive Directors had indicated their support for new SDR allocations during the fourth basic period. The Group of Twenty-Four and the Interim Committee had also favored further allocations. In the light of such overwhelming support, he welcomed the inclusion of the question in the program of work and encouraged the Managing Director to pursue informal discussions with Executive Directors on the matter. It was his hope that during such discussions, the countries that had so far remained hesitant would be able to agree on allocations for the fourth basic period, in which case it might not be necessary for the Board to discuss the proposed paper on a possible extension of the third basic period.

He looked forward to early issuance of the outline paper on the evolution of the SDR in the international monetary system, Mr. Sangare continued. The exchange of ideas generated by the paper would help to remove the uncertainty surrounding the objective of making the SDR the principal reserve asset of the system. The paper should also touch on the link between SDR allocations and development financing, an issue of special importance to many member countries. His chair attached great importance to the principle that quotas should remain the basic source of finance for the Fund. The Eighth Quota Review should lead to substantial increases in aggregate quotas if the Fund was to play an important role in helping member countries to adjust, a view that should be taken into account in the staff paper on the size of the Fund in the 1980s. Furthermore, the Eighth Quota Review provided the occasion for an upward adjustment of basic votes.

His chair looked forward with interest to completion of the staff papers on surveillance and adjustment, particularly the one on exchange rate and interest rate policies in developing countries, Mr. Sangare commented. He expected an early completion of the study on monetary integration among the member countries of the Economic Community of West African States (ECOWAS) so that similar studies planned for the monetary unions of West Africa and Central Africa could begin in earnest. The staff paper on the Fund's approach to nonmarket economies should also be useful, as it would indicate the factors that the staff took into account in prescribing programs for countries with centrally planned economies.

He noted with satisfaction that the supplementary financing facility Subsidy Account would soon come into operation, Mr. Sangare said. The staff should consider at an early date preparing a paper on the establishment of a similar facility for the use of Fund resources under the expanded access policy so that low-income countries could benefit more from enlarged access to Fund resources. As Executive Directors were aware, apart from the buffer stock facility, the compensatory financing facility was the only facility with minimum conditionality attached to its use, for it was considered that, although the factors impelling a member to have recourse to the facility were beyond its control, they were nevertheless reversible.

He could go along with the proposal to discuss the World Economic Outlook on April 19 and 21, 1982, although he would have preferred an earlier date, Mr. Sangare stated. Finally, the number of staff reports for Article IV consultations and the use of Fund resources to be discussed by the Board suggested that the area departments would be working under considerable pressure during the program period. He hoped that care would be taken to avoid bunching those reports.

Mr. Prowse remarked that he would prefer to discuss the economic and legal papers on the SDR together; as Mr. Polak had commented, it would seem best to consider the economic paper first. At the most recent discussion of the Eighth General Review of Quotas, a number of Executive Directors had requested a general discussion paper on the Eighth Quota Review and he had suggested that the Board should agree on the functions of quotas, quota formulas, the role of export variability, and the calculation of quotas on the basis of the agreed formulas. Only then could Executive Directors consider actual quotas under the Eighth General Review within the calculated framework. The staff should write a paper allowing the Executive Board to take specific and clear decisions on those broad issues.

The question of Fund liquidity seemed to be closely related to the surveillance and use of Fund resources, Mr. Prowse went on. Under the topic of surveillance, the Chairman had mentioned that the staff was working on the assessment and evaluation of adjustment programs on an ongoing basis and that a new paper reviewing stand-by and extended arrangements was planned for inclusion in the work program after the Helsinki meetings. He had been concerned about the present state of progress with existing stand-by and extended arrangements: the majority of extended arrangements were currently not operational. The Board should undertake a preliminary review of extended arrangements before the Interim Committee meeting in Helsinki in May 1982.

Like other Executive Directors, he had been concerned about developments in the compensatory financing facility, Mr. Prowse remarked. He would like the paper on the requirement of cooperation to be considered along with other aspects of the compensatory financing facility such as prompt repurchase, the assessment of a shortfall, whether the shortfall was beyond the Government's control, what constituted a balance of payments need, and whether undercompensation ought to be treated symmetrically with overcompensation. He would ask the staff to make an effort to bring all the papers forward together.

Specific papers were being prepared on the West African and Central African Monetary Unions and the East Caribbean Currency Authority, Mr. Prowse noted. He would find it helpful if the staff could also write a brief general paper on the pros and cons of monetary unions, against which specific cases could be examined.

Mr. Sigurdsson endorsed the Managing Director's outline of the work program. The projected schedule was heavy, and it might be desirable to focus on a few priority subjects in fewer Board meetings.

He agreed that by the time of the Helsinki meetings the Executive Board should have completed its consideration of the various technical matters related to the quota review, as well as of the size of the Fund, Mr. Sigurdsson remarked. As Mr. Polak had said, the Board should aim at taking up the topic of relative quota shares before rather than after, the Helsinki meetings, a course of action that would be better in keeping with the mandate of the Interim Committee to speed up the Eighth General Review of Quotas.

His authorities welcomed the proposed new procedure for the preparation and publication of the World Economic Outlook, Mr. Sigurdsson continued. It was desirable to keep the production period as brief as possible to avoid presenting outdated material. However, the proposed procedure gave his authorities only a limited time to study and comment on the drafts. The staff should consider circulating individual chapter drafts separately, as soon as they became available. He assumed that the new procedure would ensure that all the information usually provided to members in the course of the exercise would continue to be made available.

In his concluding remarks on the work program on June 24, the Managing Director had said that he would ask the staff to study the possibility of extending the Fund's technical assistance to different fields and would review the priorities attached to each of them, Mr. Sigurdsson recalled. In view of the importance of technical assistance for the success of many adjustment programs, the study would indeed be timely. As it was, the results of the study would be presented in the annual report on technical assistance activities.

Miss Le Lorier supported the direction indicated for the future work of the Board. Many subjects included in the program were of crucial importance to the role of the Fund, particularly the size of the Fund in the 1980s and the evolution of the SDR in the international monetary system. She hoped that the Executive Board would arrive at a prompt agreement on the specifics of the Eighth General Review of Quotas, including both equiproportional and selective increases. The discussion of technical quota issues should indeed be completed before the Helsinki meetings. It was clear that, in view of the likely demand for Fund resources over the coming few years, the Board would have to return to the issue of whether the Fund's financial means were adequate to respond to its members' needs.

As to surveillance, she hoped that during the Board discussion of policies of monetary restraint, Directors would examine in depth the consequences for the conduct of member countries' economic policies of the selective use of monetary tools by some industrial countries. The specifics of the question seemed to have been downplayed in the staff paper issued on November 2.

The coming into operation of the supplementary financing facility Subsidy Account was welcome, Miss Le Lorier continued. However, contributions had been slow, and disbursements might consequently be lower than originally expected. To what extent would the Fund's aim of alleviating the burden of charges on low-income users of conditional resources be achieved? Would the full-scale nature of the World Economic Outlook exercise allow for a comprehensive examination of nonmember socialist countries? Finally, she warmly supported the forthcoming discussion on the issue of expatriate benefits.

Mr. Lovato expressed agreement with the Managing Director's statement. Short-term problems such as the decision about an SDR allocation were becoming increasingly intermingled with the basic question of the nature of the asset in the future. There was a major divergence of views on the means of pursuing the agreed objective of making the SDR the central asset of the system. He endorsed the procedures suggested by the Managing Director to ascertain whether there was sufficiently broad support among participants for further SDR allocations immediately after the conclusion of the present basic period.

A compromise solution might not emerge unless the Executive Board defined the further steps to be taken in order to promote the role of the SDR, Mr. Lovato observed. The recent improvements in the quality of the asset were moves in the right direction, but there were reasons for considering the role of the SDR within a framework that differed from the one prevailing when the asset had been established. Under present circumstances, promoting the SDR as an instrument of liquidity creation risked being inconsistent with the aim of effectively supporting the asset. Other means of doing so should be explored; for that reason, he welcomed the opportunity to discuss broad-ranging issues on the basis of the paper on the evolving role of the SDR in the international monetary system. It would be useful to circulate an outline of the whole spectrum of options put forward in the past. He hoped that considerable attention would be paid to the proposal for basing IMF funding on the SDR.

The recent Executive Board discussion on two technical aspects of the Eighth General Review of Quotas had made it clear that there was no easy solution and that special efforts from both the Board and the staff would be required to deal with the mandate of the Interim Committee, Mr. Lovato noted. Given the agreed aim of reducing the discrepancy between some members' actual quotas and their relative positions in the world economy, the Eighth Quota Review might well be more difficult than previous reviews. For that reason, agreement on procedural aspects should be considered a prerequisite for the speedy conclusion of the negotiations. Mr. Polak's proposal had many merits, and its implications should be thoroughly investigated.

During Article IV consultations, many Executive Directors had raised questions about the Fund's responsibility to exercise surveillance over particular situations or policy actions, Mr. Lovato recalled. In many cases the staff's answers, although very professional, were necessarily ad hoc arguments and gave the impression that the Fund had not defined specific positions on some sensitive matters. While there were objective difficulties in dealing with questions that were highly debatable from both a political and an academic point of view, improved knowledge of those questions was essential if Fund surveillance was to be implemented more actively. He agreed with the Managing Director that the international aspects of policies of monetary restraint were close to the heart of the Fund's surveillance responsibilities, as demonstrated during the Board discussion of the Article IV consultation with the United States and in Board discussions of the Annual Report. While he did not expect the discussion of monetary restraint to lead to definitive conclusions, an awareness of the external costs of monetary restraint could help countries in looking for a more balanced mix of monetary and fiscal policies.

Mr. Laske commented that he had no difficulties with the scheduling of discussion of topics mentioned by the Managing Director. In the past, there had been some difficulty because some policy papers had been issued only shortly before the scheduled Board discussion of them. He was sure that national authorities wished to be able to examine important Fund policy papers. It would be desirable if such papers could be issued at least two weeks, and perhaps as much as three weeks, before the Board discussion. That observation applied to the basic papers on SDR questions--he agreed with those who advocated discussing the legal paper together with the economic paper--and to the paper on the size of the Fund in the 1980s. He very much agreed with the new procedure proposed for the General Survey of the World Economic Outlook.

Mr. Kabbaj urged the Executive Board to implement the solution suggested by the Interim Committee to resolve the present deadlock on SDR allocations for January 1982. He welcomed the discussion of papers dealing with the evolution and usability of the SDR and its role in the international monetary system in the light of the long-standing Fund policy aimed at improving the characteristics of the asset and increasing its share in international liquidity. In view of the short time remaining before the end of the current basic period, he would support an early discussion of legal aspects of the extension of the basic period.

The Executive Board should focus its attention on the size of the Fund before attacking the various technical questions relating to the determination of quotas, a task that would become merely a statistical exercise as long as decisive questions like those on the distribution of quotas remained unsettled, Mr. Kabbaj said. On surveillance and adjustment programs, he welcomed the discussion on the effectiveness of exchange rate and interest rate policies in developing countries, but would request that it be postponed until the beginning of 1982. Many of the countries in his constituency were in the midst of preparing their budgets and would appreciate more time to reflect on the subject.

He was also looking forward to the discussion on the Fund's approach to nonmarket economies, Mr. Kabbaj concluded. He hoped that the idea of nonmarket economies would be extended in the forthcoming paper to economies with a large public sector coexisting with a fairly substantial private sector, and to centralized economies as well. Finally, like Mr. Buira, he thought that a review of recruitment policies should be included in the work program. The Managing Director had shown a strong willingness to implement a more open policy, and the time was appropriate for reviewing it. On the whole, he agreed with the points made in the Managing Director's statement and had no difficulty in supporting them.

Mr. Taylor noted that his chair had long argued that there was a need to take stock of the function of the SDR in the international monetary system. Therefore, he warmly welcomed the intention to have a broad-ranging issues paper on the role of the SDR. The authors of the paper should be permitted to examine basic issues, including a review of the Fund's objectives and of how the SDR could best serve them, even if it meant stepping a little outside the legal confines of the Articles of Agreement. His chair would be keen to consider ways in which the usability of the SDR could be improved, particularly in the private sector. Like Mr. Polak, he regretted that the promised seminar on the substitution account had disappeared from the agenda. Would the substitution account be covered in the paper on the role of the SDR?

Executive Board discussion of the paper on the legal aspects of extending the third basic period would depend very much on the outcome of the consultations between the Chairman and Executive Directors, Mr. Taylor remarked. It might therefore be best to delay discussion of the paper pending those consultations. However, he would not wish to defer consideration of the paper on economic issues, which would require in itself perhaps an entire day's discussion in the Board.

On the Eighth General Review of Quotas, the quota formulas and quota calculations remained to be resolved, and the Board might well find it difficult to complete consideration of such technical matters before the Helsinki meetings, Mr. Taylor commented. Thus, he would prefer that the Board address as quickly as possible the issue of the size of the Fund; he was glad that the paper on that subject would be discussed in December. The Board should be giving priority to consideration of broader issues in the quota field, but work on quota calculations should continue in the background. It would be unwise for the Board to shorten its work on the technical part of the quota exercise owing to a wish to decide the policy questions.

Ideally, it would be best to discuss all aspects of the compensatory financing facility together, but in practice such a procedure might mean delaying some of the work already completed by the staff, Mr. Taylor continued. It might therefore be best to discuss the paper on the test of cooperation at a fairly early date. However, in view of the upcoming discussions on individual country cases, the papers on the conditions governing the establishment of a shortfall beyond a member's control and the paper on the repurchase of any overcompensation should be examined in the Board fairly soon after the papers that were already available. Would the paper on establishing the size of the shortfall consider the difficult issue of export pricing policy and the related issue of stock-building? Finally, the staff study of debt monitoring had been useful, and he would encourage the staff to bring up to date the work done in that area. If there was not enough material for a new paper on debt monitoring, the subject might be dealt with as a section in the annual capital markets paper.

Mr. Nagashima noted that he was in general agreement with the Managing Director's statement. He was particularly looking forward to the paper on the evolving role of the SDR in the international monetary system because it would have some relevance to the Board's deliberations on the question of further allocation of SDRs. As the Managing Director had noted, the staff would have to give due attention to the many changes that had taken place in the international monetary system since the creation of the SDR. He would prefer to discuss the legal paper together with the paper on the outline of the role of the SDR some time in December.

The Board should complete its consideration of the various technical quota questions as soon as possible, Mr. Nagashima commented. The overall size of the quota increase also should be discussed at an early stage. He shared the Managing Director's hope that Board consideration of both technical quota questions and the size of the Fund should be completed by the time of the Helsinki meetings. As it was an accepted principle that quota subscriptions should remain the basic source of financing for the Fund, one of the most important objectives of the coming quota increase was how to bring about the greatest amount of additional usable resources to the Fund, and the quota exercise should be designed in a manner that would best serve that objective. Therefore, it was also essential to examine the liquidity aspect of the quota exercise. The staff should provide an analysis of the implications of various alternatives for the Fund's liquidity. He agreed with Mr. Polak and Mr. Sigurdsson that the Executive Board should take up the question of relative quota shares even before the Helsinki meetings. Finally, he wished to support Mr. Casey's suggestion for a mini-work program for the various quota issues.

Mr. Nimatallah endorsed the work program proposed by the Managing Director and the idea of a seminar proposed by Mr. Erb.

Mr. Iarezza said that he was in broad agreement with the Managing Director's statement on the work program. His authorities were hopeful that a prompt agreement would be reached on SDR allocations. He would be looking forward to the coming staff papers on the future role of the SDR, but it was difficult to see how that role could be improved if the share of the SDR in total international reserves continued to fall. He hoped that the coming papers would stress the distinction between recent developments in the use of SDRs as a unit of account in private markets and the role of the SDR as an international reserve asset.

The idea put forward by Mr. Erb regarding the possibility of an academic seminar on SDR matters was interesting, as was Mr. Polak's proposal to take up the issue of the substitution account at the same seminar, Mr. Iarezza went on. However, he hoped that those ideas would not be an obstacle to reaching a prompt agreement on the possibility of an intermediate SDR allocation, perhaps on the lines advanced at the most recent meeting of the Interim Committee, i.e., an extension of the present SDR allocation exercise period. The Board discussion of the paper on the size of the Fund would be a useful beginning exercise that would allow the Board to resume its work on equiproportional and selective increases after the Helsinki meetings. The request made by Mr. Polak, Mr. Buira, and Mr. Nagashima that the staff examine the matter further deserved consideration, although he did not see how the Executive Board would be able to deal with those issues before the Helsinki meetings. Finally, any kind of simulation of different voting shares of creditor and debtor countries and the effects on Fund liquidity should include an analysis of alternatives to the enlarged access policy.

Mr. Kafka stated that, like Mr. Sigurdsson, he felt that the Board might be trying to attempt too much. Perhaps in the period to the Helsinki meetings the Board should limit itself to four subjects: the SDR, the Eighth General Review of Quotas, the World Economic Outlook, and necessary administrative matters in the widest sense. He agreed with Mr. Polak that substitution should be discussed in some form. On the Eighth General Review, since Mr. Nagashima had made a claim that quotas should be distributed according to the liquidity needs in the future, he would like to point out that the ability of a country to supply liquidity fluctuated. It was dangerous to attribute quotas on the basis of a momentary liquidity situation; the situation might change greatly in a short time, but the quotas could not subsequently be reduced. The Fund had had some unfortunate experiences in that respect.

On SDR matters, he would prefer that the two papers on economic and legal aspects should be discussed together, with precedence given to the economic one, Mr. Kafka concluded. He assumed that the Board would have a chance to discuss an outline of the economic paper in December. He agreed with Mr. Erb's suggestion for an economic seminar, which did, however, require a long lead time. He also supported Mr. Buira's suggestion that thought should be given not only to the SDR and the size of the Fund in the 1980s, but also to the entire international monetary system in the 1980s. While he would be able to accommodate a seminar on exchange rates on December 11, he would prefer that it be postponed to December 21. the paper on the size of the IMF should be discussed either on December 9 or December 18.

Mr. Wang said that he was in general agreement with the Managing Director's statement on the work program. He had noted that a large number of items had been scheduled for discussion within a relatively short period. So that the Board could concentrate on the issues of greatest importance, he would suggest that top priority be given to two items, the Eighth General Review of Quotas and further allocations of SDRs. He hoped that satisfactory solutions to those two issues could be reached at an early date.

Mr. Kannangara explained that he was flexible about the timing of the discussions of the two papers on the SDR. He welcomed the emphasis to be given to the future role of the SDR in the international monetary system, to which Governors had made frequent reference at the Annual Meeting. The proposed studies of the evolving role of the SDR and on possible further improvements in SDR usability should enable the Fund to take additional steps toward the goal of making the asset the centerpiece of the system. The Fund should refrain from taking any action that would downgrade the role of the SDR. The absence of an allocation in 1982 would give a wrong signal of the Fund's intentions. The SDR could play a role only to the extent that SDRs were available. He therefore hoped that as a result of the conversations that the Chairman was to hold with Executive Directors, a positive decision would be taken to continue allocations of SDRs in the next basic period. Moreover, at the Annual Meeting a number of Governors had expressed support for a rapid allocation of SDRs.

Again, most of the Governors at the Annual Meeting had emphasized the need for rapid action for a substantial increase in Fund quotas, Mr. Kannangara recalled. He was therefore looking forward to the paper on the size of the Fund in the 1980s for a long-term perspective. The staff should take account of the recent changes in the international economic structure and should pay due regard to the needs of the developing countries in coping with emerging changes in the nature and magnitude of their payments deficits.

As to the general review, Mr. Kannangara observed, what was required was not a mere simplification of the quota formulas, but rather the incorporation of new elements, such as a poverty index and import variability, into the formulas. Thus, the concept of the need for Fund resources would enter as one of the criteria in the determination of quotas that, after all, determined the size of a country's access to Fund resources. He hoped that a staff paper along those lines would be forthcoming. While he welcomed the proposed studies on surveillance and adjustment programs, the Fund should attempt to reorient its activity so that it exercised surveillance with equal rigor on not only deficit and borrowing countries, but also on other members. As pointed out in the communiqué of the Group of Twenty-Four, adjustment programs should be devised so as to promote both economic growth and social growth. While he was glad that a paper would soon be circulated dealing with the Fund's approach to nonmarket economies, he wished to repeat that it would also be useful to have a study dealing with partially planned economies with some degree of state intervention in economic activity. The proposed study on the effectiveness of exchange rate and interest rate policies should not be confined to developing countries, as was proposed at present, but should also take a comprehensive look at the effectiveness of such policies in less developed countries, in centrally planned economies, and in partially planned economies as well.

On the use of Fund resources, he was glad that the Board would soon be in a position to decide on the first disbursement of the supplementary financing facility Subsidy Account, Mr. Kannangara noted. The reasons that had prompted the establishment of the Subsidy Account continued to be valid. The Fund could now begin to give serious consideration to establishing a subsidy account for enlarged access to Fund resources, on the lines recommended by the Group of Twenty-Four. Furthermore, in view of some of the opinions expressed by Executive Directors on requests for the use of Fund resources under the compensatory financing facility, the proposed studies on the requirement of cooperation, prompt repurchase in the event of overcompensation, and the concept of circumstances beyond a member's control were timely. He hoped that the studies would be designed to make the facility more flexible and more appropriate for meeting the present needs of less developed countries; they should not be intended to make the compensatory financing facility more restrictive because of considerations such as conserving the Fund's resources.

Regarding staff compensation, the Fund should remain in close liaison with the World Bank so as to maintain parallelism, Mr. Kannangara said. What progress had been made as a result of the coordination mechanism instituted through the meetings of the Fund's Committee on Administrative Policies and the Bank's Ad Hoc Committee of Executive Directors? Finally, he looked forward to the proposed papers on monetary unions and on the economic policies of oil exporting countries.

Mr. Kharmawan believed that all the subjects mentioned in the program of work were important and deserved the attention of the Board. However, he would like to associate himself with Mr. Kafka in wondering whether the Executive Board would be able to complete the discussion of all the issues mentioned before the Interim Committee met. Perhaps the Chairman should consider establishing a list of priority items that should have received the attention of the Board before the beginning of

1982 and before the Interim Committee meeting. The Board might begin by considering Mr. Kafka's proposal for discussing four issues, but another scheme could also be developed to limit the Board's work to a few of the more immediately important subjects.

The SDR naturally deserved priority before the Helsinki meetings, when the Executive Board was to report on the progress that it had achieved, Mr. Kharmawan remarked. He understood that the legal paper would analyze the possibility of postponing the next basic period, an issue related to the forthcoming allocation or nonallocation of SDRs. By contrast, the proposed economic paper was related to the more fundamental issue of the SDR's role in the international monetary system and the characteristics required for the asset to evolve further. Was it necessary to discuss the two papers together? The legal paper required prompt attention in view of the immediate need to decide on the forthcoming SDR allocation. The economic paper dealt with the entire system, and it would require more than one meeting to obtain a consensus on the subject.

The Executive Board had not yet completed the statistical side of the determination of quotas, Mr. Kharmawan noted. For example, the statistical paper on quotas contained a comparison between actual and calculated quotas based on the old formulas. Since the paper had been written, the Board had agreed to use Set II data. The staff would therefore have to update the data and produce new quota calculations, but the Executive Directors still had not agreed on the quota formulas. Only when they were able to indicate to the staff how to proceed further could they begin to compare the out-of-lineness between actual quotas and calculated quotas or decide on the role of export variability. Progress should be made first in the statistical field while the form of possible selective and general increases in quotas remained under consideration. Finally, he agreed with Mr. Erb's idea of holding a seminar conducted by outside experts.

Mr. Finaish commented that, like Mr. Sigurdsson, Mr. Kafka, and Mr. Kharmawan, he believed that if a relatively large number of important items were squeezed into a work program, it might not allow sufficient time for Directors to consider in appropriate detail the various issues discussed in the relevant staff papers. In many cases, Directors needed time to consult with national authorities, and it could take from two to three weeks for the relevant staff papers to reach some countries. He fully agreed with Mr. Laske that there should be at least a two-week interval between the issuance of a paper and its discussion in the Board. He noted further that a very tight Board schedule could also add considerably to the pressure of work on the Chairman and the staff. It could conceivably also at times have adverse implications for the quality of the staff's output.

He would like to know whether the December 4 item on exchange rate and interest rate policies in developing countries entailed one paper or two papers, Mr. Finaish asked, recalling that Directors had requested a paper on exchange rate policies and a paper on interest rate policies on two different occasions. In any event, he was prepared to support Mr. Kabbaj's request that the item be delayed until some time in early 1982. He also inquired whether the paper on the Fund's approach to nonmarket economies would also cover mixed economies with very large public sectors. On quota matters, he was prepared to go along with the Managing Director's suggestions. He also supported Mr. Nagashima's request for paying greater attention to the implications of alternative distributions of quotas for Fund liquidity.

The Secretary, responding to questions of scheduling raised by Executive Directors, explained that the proposed change in the time of the 1982 Annual Meetings had not yet been scheduled for Board discussion. Mr. Joyce intended to suggest that the matter be put on the agenda for Wednesday, November 18.

Several Executive Directors preferred to postpone the December 4 item on exchange rates and interest policies in developing countries, the Secretary noted. The staff intended to prepare one paper on the topic, which would be issued as soon as possible. Several Directors had also expressed a preference for the Board to consider together the papers on the outline of the evolving role of the SDR and on legal aspects of an extension of the basic period. Perhaps the two papers could be scheduled for discussion on Wednesday, December 9. In response to Mr. Erb's request for a schedule change for the seminar discussion on current exchange rate developments, currently listed for December 11, the seminar could either be brought forward to December 4 or postponed until December 21.

The Chairman, in response to a question by Mr. Nimatallah, explained that the Executive Board would not have finished discussing the paper on the size of the Fund in the 1980s by December 18. The Board would certainly return to the matter.

In reply to a question by Mr. Kafka, the Chairman suggested that it would be preferable to hold the seminar discussion on current exchange rate developments on December 4. The exchange rate and interest rate policies of developing countries would be discussed in January 1982. The outline of the evolution of the SDR and the legal paper on the SDR allocation would both be discussed on December 9.

The idea proposed by Mr. Erb of holding a seminar on SDR matters with contributions from academics outside the Fund had been widely accepted by the Board, the Chairman observed. Preparations for such a seminar would begin immediately. The issue of substitution would also be covered. On quotas, he had carefully noted the remarks made by Mr. Polak and others to the effect that the staff might enrich the technical papers with some arithmetic calculations on different types of quota determination. He had also noted the wish of Executive Directors to concentrate on the most important topics, as delineated by Mr. Kafka.

He agreed with Mr. Prowse that the Executive Board should be able to examine in a short paper the causes of the interruption of a number of stand-by and extended arrangements, the Chairman continued. The paper would be produced before the full review after the Helsinki meeting.

He had been interested in Mr. Casey's recommendation that a paper should be presented on the basic philosophy of the Fund, the Chairman remarked. Durable growth could be established only on a basis of financial stability: such was the credo of the Fund. Perhaps the staff would review the Fund's experience with its many member countries. To answer Mr. Erb and Mr. Sigurdsson, the staff was currently examining the role of technical assistance and resident representatives and would present its findings as a section of the Annual Report. The staff would examine how such technical means could be used to enhance the effectiveness of the implementation of Fund programs. He agreed that the paper on the size of the Fund should not be confined to a short-term examination of what the Fund was doing, but should also incorporate reflections on how the system was likely to evolve and how the Fund could best meet its needs. The topic was closely related to the question of the liquidity needs of the Fund at present and after the quota increase. As Mr. Nagashima and Mr. Finaish had recommended, the staff would consider the question of the liquidity needs of the Fund in the statistical work to be conducted on Fund quotas.

As to the compensatory financing facility, the staff was currently looking into the test of cooperation, the question of early repurchases, and the determination of whether a shortfall was beyond a government's control, the Chairman observed. An examination of pricing policies and stockbuilding might also be undertaken. The Fund was now committed to examining the "Sudan question," to determine whether a member was obliged to make a repurchase of any amount drawn on the basis of estimated data that exceeded the amount that could have been drawn on the basis of actual data, and the requirement that a member should notify the Fund at an early stage of its balance of payments difficulties.

The Director of Adjustment Studies explained that the staff intended to consider developing countries' exchange rate policies and interest rate policies in a single paper. However, the staff had some doubts whether the draft paper dealt adequately with interest rates, which it examined solely in connection with exchange rates. A broader treatment of interest rates would be possible in a subsequent paper.

Mr. Finaish remarked that interest rate policies might be studied apart from exchange rate policies. In his view, because of the importance of the two subjects, it would be more useful, and also more practical, to address them in two separate papers.

The Chairman replied that the question would be discussed with the authors of the paper on exchange rate and interest rate policies in developing countries.

On currency unions, the Chairman remarked, he was not sure whether the staff intended to write a general paper on the pros and cons of currency unions before writing the specific paper on the monetary groupings in West Africa, Central Africa, and the East Caribbean. However, the paper should guide readers in such a way that they could answer the main policy questions with respect to such unions.

The Deputy Managing Director recalled that Mr. Buira had requested a report that could form the basis for a Board discussion on recruitment policy. The staff would prepare such a report.

The Chairman observed that the Executive Directors were in agreement on the program of work.

APPROVED: March 29, 1982

LEO VAN HOUTVEN
Secretary