

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/51

3:00 p.m., March 21, 1983

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

Executive Directors

A. Alfidja  
  
A. Donoso  
R. D. Erb  
M. Finaish  
A. H. Habib  
T. Hirao  
  
A. Kafka  
  
G. Lovato  
R. N. Malhotra  
  
J. J. Polak  
  
G. Salehkhoul  
F. Sangare  
  
Zhang Z.

Alternate Executive Directors

w. B. Tshishimbi  
C. Taylor  
H. G. Schneider  
A. Le Lorier  
  
C. Dallara  
  
Jaafar A.  
T. Yamashita  
M. Casey  
  
W. Moerke, Temporary  
C. P. Caranicas  
A. S. Jayawardena  
J. E. Suraisry  
T. de Vries  
K. G. Morrell  
O. Kabbaj  
E. I. M. Mtei  
T. Portas, Temporary  
A. Lind~~g~~  
I. Fridriksson, Temporary

J. W. Lang, Jr., Acting Secretary  
J. C. Corr, Assistant

1. Thailand - Purchase Transaction - Buffer Stock Financing  
Facility - International Natural Rubber Agreement . . . . Page 3
2. Work Program - Executive Board - Informal Recess . . . . Page 4
3. Draft Minutes - Postponement of Approval . . . . . Page 18



Also Present

Administration Department: G. E. Gondwe. African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director. Asian Department: K. Saito, J. Schulz, D. A. Scott. European Department: B. Rose, Deputy Director. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; D. K. Palmer, Deputy Director; H. W. Gerhard, S. Kanesa-Thanan. Fiscal Affairs Department: V. Tanzi. Legal Department: J. G. Evans, Jr., Deputy General Counsel; W. E. Holder. Middle Eastern Department: G. Tomasson. Research Department: W. C. Hood, Economic Counsellor and Director; C. F. Schwartz, Associate Director and Director of Adjustment Studies; R. R. Rhomberg, Deputy Director; G. I. Brown, K.-Y. Chu, P. R. Menon. Secretary's Department: A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: D. Williams, Deputy Treasurer; T. M. Tran. Western Hemisphere Department: S. T. Beza, Associate Director. Bureau of Statistics: J. B. McLenaghan. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, J. R. N. Almeida, C. J. Batliwalla, S. El-Khourj, I. R. Panday. Assistants to Executive Directors: R. Bernardo, J. Bulloch, M. Camara, T. A. Connors, R. J. J. Costa, G. Ercel, A. Halevi, M. Hull, J. M. Jones, P. Leeahtam, V. K. S. Nair, Y. Okubo, J. K. Orleans-Lindsay, G. W. K. Pickering, J. Reddy, C. A. Salinas, H. Suzuki, M. Toro.

1. THAILAND - PURCHASE TRANSACTION - BUFFER STOCK FINANCING FACILITY - INTERNATIONAL NATURAL RUBBER AGREEMENT

The Executive Directors considered a request by Thailand for a purchase equivalent to SDR 19.6 million in connection with Thailand's contributions to the buffer stock of the International Natural Rubber Agreement (EBS/83/39, 2/18/83; Sup. 1, 3/18/83; and Sup. 2, 3/18/83).

Mr. Habib commented that Thailand's balance of payments need justified the request. The authorities had cooperated closely with the Fund and they intended to continue to do so. Thailand currently had a stand-by arrangement with the Fund and the program was on target to date.

Mr. Hirao stated that he supported the request. Thailand had been cooperating closely with the Fund since November 1982 under a stand-by arrangement. In 1983, the current account was expected to show a sizable deficit, while the overall balance of payments was likely to have a small deficit. The requirements of balance of payments need and cooperation with the Fund were, therefore, both satisfied. The amount of the proposed purchase was based on the contribution, in Malaysian ringgits, of M\$35.2 million paid in October 1982 and M\$14.4 million paid in March 1983 to the buffer stock of the International Natural Rubber Agreement. The authorities' request had been made within the time limits prescribed in the Executive Board decision of November 1982.

Mr. Zhang, Mr. Suraisry, Mr. Jayawardena, Mr. Kabbaj, and Mr. Morrell each stated that he supported the proposed decision.

Mr. Dallara commented that, while he also supported the request by Thailand, a footnote had been attached to Thailand in the recent Treasurer's Department report, usually an indication that some aspect of a program was not on track. However, no mention of any such development had been made in EBS/83/39 or its supplements. He invited the staff to provide any relevant information.

The staff representative from the Asian Department remarked that Thailand had exceeded the ceiling on total domestic credit at the end of December 1982 by about 2/10 of 1 per cent. The breach had occurred in relation to credit to the private sector; the subceiling on net credit to the public sector had been observed. Data for the end of January indicated that all performance criteria were being observed at that date. A staff member had recently visited Bangkok to discuss developments with the authorities at their request; the real rate of interest had declined more rapidly in Thailand in the second half of 1982 than had been expected, and an important shift appeared to be taking place in the structure of commercial bank lending, with more commercial bank credit being made available through the formerly unorganized and unofficial credit markets. The current account deficit in 1982 had turned out to be \$1.1 billion, much lower than had been anticipated only a few months earlier. The rate of inflation was currently 2 per cent.

The Executive Directors then took the following decision:

1. The Fund has received a request by the Government of Thailand for a purchase of SDR 19.6 million under the Decision on Buffer Stock Financing: The Problem of Stabilization of prices of Primary Products, Decision No. 2772-(69/47), June 25, 1969, as amended by Decision No. 4913-(75/207), December 24, 1975, and the Decision on Buffer Stock Financing Facility: International Natural Rubber Agreement, Decision No. 7246-(82/147), November 12, 1982.

2. The Fund determines that this purchase would be consistent with the decisions referred to in (1) above, notes the representations of Thailand, and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article IV, Section 3(b)(iii).

Decision No. 7368-(83/51), adopted  
March 21, 1983

## 2. WORK PROGRAM - EXECUTIVE BOARD - INFORMAL RECESS

The Executive Directors considered the work program until the 1983 Annual Meeting together with a tentative schedule of Executive Board meetings (Secretary's Circular No. 83/28, 3/11/83).

The Chairman made the following statement:

Now that the Executive Board has completed its report transmitting the proposed resolution on the Eighth General Review of Quotas to the Governors, we should have an exchange of views on our work program. In this statement, I have touched upon the main elements of the work program for the period up to the Annual Meeting, i.e., end-September, with emphasis on the period until the end of June. It is proposed that a review of the work program for the remainder of the period until the Annual Meeting be carried out in the first part of June.

### 1. Fund's Liquidity Position and Financing Needs

The next semiannual review of the Fund's liquidity position and financing needs under the Guidelines for Borrowing by the Fund is tentatively scheduled for Board discussion on April 8, 1983, which is slightly in advance of the normal six-monthly schedule. A further review of Fund liquidity can be expected to take place in September 1983, prior to the Annual Meeting.

The Executive Directors then took the following decision:

1. The Fund has received a request by the Government of Thailand for a purchase of SDR 19.6 million under the Decision on Buffer Stock Financing: The Problem of Stabilization of prices of Primary Products, Decision No. 2772-(69/47), June 25, 1969, as amended by Decision No. 4913-(75/207), December 24, 1975, and the Decision on Buffer Stock Financing Facility: International Natural Rubber Agreement, Decision No. 7246-(82/147), November 12, 1982.

2. The Fund determines that this purchase would be consistent with the decisions referred to in (1) above, notes the representations of Thailand, and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article IV, Section 3(b)(iii).

Decision No. 7368-(83/51), adopted  
March 21, 1983

## 2. WORK PROGRAM - EXECUTIVE BOARD - INFORMAL RECESS

The Executive Directors considered the work program until the 1983 Annual Meeting together with a tentative schedule of Executive Board meetings (Secretary's Circular No. 83/28, 3/11/83).

The Chairman made the following statement:

Now that the Executive Board has completed its report transmitting the proposed resolution on the Eighth General Review of Quotas to the Governors, we should have an exchange of views on our work program. In this statement, I have touched upon the main elements of the work program for the period up to the Annual Meeting, i.e., end-September, with emphasis on the period until the end of June. It is proposed that a review of the work program for the remainder of the period until the Annual Meeting be carried out in the first part of June.

### 1. Fund's Liquidity Position and Financing Needs

The next semiannual review of the Fund's liquidity position and financing needs under the Guidelines for Borrowing by the Fund is tentatively scheduled for Board discussion on April 8, 1983, which is slightly in advance of the normal six-monthly schedule. A further review of Fund liquidity can be expected to take place in September 1983, prior to the Annual Meeting.

In the light of the Fund's liquidity position, the Fund will need to establish new lines of credit from official sources, and, if necessary, from other sources. As you know, discussions have been held with the Saudi Arabian authorities regarding the details of a possible associated borrowing agreement with the revised and enlarged General Arrangements to Borrow. I am also continuing discussions on a possible third tranche from the Saudi Arabian Monetary Agency in connection with the financing of the policy on enlarged access. On both these matters I hope to be in a position to report to the Board in the near future. I will keep the Board informed of any further discussions on Fund borrowing.

A paper will be issued in late April 1983 for the information of Executive Directors, "The Impact of Fund Operations on the Fund's Liquidity Position--The Mismatching of Maturities."

## 2. Surveillance and World Economic Outlook

Board discussion of the "Annual Review of the Implementation of Surveillance" (SM/83/43) is scheduled for March 28, when we will have an opportunity to consider some suggestions directed toward increasing the effectiveness of the current procedures for surveillance.

It is proposed to issue, in the early part of May, a World Economic Outlook paper that would deal with exchange rates in the setting of national economic policies. This "Main Issues" paper would focus on the seven major industrial countries, and the aim will be to analyze the interaction of policies and developments among those countries so as to provide the essential framework for a discussion within the compass of the Fund's responsibility for surveillance over members' exchange rate policies. In addition, attention would be given to key issues arising from exchange rate developments and policies in the developing countries. Board consideration of the paper is scheduled for June 1, to be continued, if necessary, on June 2.

The current work program on the World Economic Outlook also includes the preparation of a draft report by the staff for publication. It is planned to circulate this draft to Executive Directors early in April and, in accordance with the practice followed in recent years, to request the submission of comments by Directors over a period of approximately three weeks. The new statistical and analytical material incorporated in this draft report will serve to update the world economic picture presented in the "General Survey" paper (ID/83/1) issued in mid-January 1983; and, if Directors wished, an opportunity to discuss this updated picture could be provided in a Board discussion during the third week of April.

The customary full-fledged World Economic Outlook exercise, including statistical projections and analysis of developments and prospects will be carried out in the summer in preparation for the Interim Committee meeting; the proposed date for the Board discussion is September 9.

In the paper "Annual Review of the Implementation of Surveillance" (SM/83/43) mentioned above, the Executive Board has been informed of the intention of preparing over the next several months papers concerning "the difficult problem of how to identify cases where the exchange rate is viewed with concern from a national or an international standpoint because the behavior of the rate appears unrelated to underlying economic and financial conditions, including factors currently and prospectively affecting competitiveness and long-term capital movements" (p. 2); and it was specifically noted that the proposed papers would give renewed attention to "the assessment of balance of payments developments in a medium-term framework, both for individual members and in a multilateral setting" (pp. 4-5). It is planned to issue the first of these papers bearing on the approach to surveillance, "Issues in the Assessment of Exchange Rates of Industrial Countries in the Context of Their Economic Policies," in time for Executive Board consideration on August 31.

### 3. SDR Matters

In its communiqué of February 11, 1983, the Interim Committee, noting developments since its Toronto meeting, agreed that the question of allocations of SDRs in the current basic period should be re-examined as soon as possible and requested the Executive Board "to review the latest trends in growth, inflation, and international liquidity, with a view to enabling the Managing Director to determine, not later than the next meeting of the Interim Committee, whether a proposal for a new SDR allocation could be made...." Accordingly, a paper will be prepared for Board consideration in July.

It is also planned to issue for Board consideration further papers on improving the attractiveness of the SDR, including, for example, papers on the frequency of payments of SDR interest and charges, the frequency of adjustments of the SDR interest rate, and the simplification of reporting procedures in prescribed operations. In preparing these papers the staff will take into account the Executive Board discussion last July on the evolving role of the SDR and also bear in mind the proceedings of the Conference on International Money, Credit, and the SDR on March 24-25.



#### 4. Use of Fund Resources

Under the Decision on the Policy on Enlarged Access, we are required to review that decision not later than June 30, 1983. This review would have to examine the important question of limits on access to the Fund's resources and also other features of the Decision. In this regard, the Interim Committee in its last communiqué "invited the Executive Board to take note of the views expressed in the Committee by those favoring maintenance of the present enlarged limits in terms of multiples of quotas and also by those stressing the need to have regard to developments in the Fund's liquidity." As Executive Directors are aware, the Committee also invited me to report on this matter at its next meeting. Accordingly, Board consideration of "Review of the Policy on Enlarged Access" is scheduled for May 18.

Under the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports, the Executive Board is also required to review that Decision prior to June 30, 1983. The staff paper to be prepared in this connection would also review certain aspects of the operation of the compensatory financing and buffer stock financing facilities. In particular, it would cover the policy concerning the requirement regarding cooperation that is made of members using the compensatory financing and buffer stock financing facilities, and the size of the quota limits applicable to access to these two facilities. The paper would include a review of the experience with respect to overcompensation in early drawings. Board consideration of these issues is scheduled for June 3.

A paper will also be prepared for later Board consideration on the requirement of need and its application in particular to the use of the compensatory financing and buffer stock financing facilities.

#### 5. Area Departments' Work Program

As regards country papers, we should expect about 40 Article IV consultation reports until the end of June. It is anticipated that during the same period the Board might need to consider about 30-35 staff reports relating to the use of Fund resources with upper credit tranche conditionality, including requests for stand-by arrangements and reviews under existing stand-by and extended arrangements. We might also expect some calls on Fund resources under the compensatory and buffer stock financing facilities, though the number of requests under these facilities should now be slowing down as most commodity prices begin to climb up from their trough levels.

The work program with regard to Article IV consultations and reviews under stand-by and extended arrangements is indicated in the Annex, which includes the tentative timing for Executive Board consideration of staff reports.

## 6. Annual Report

A paper on the Outline of the Annual Report will be circulated for Board consideration on April 8. Drafts of the various chapters will begin to be circulated to the Committee of the Whole early in June for consideration by the Committee in the second part of June and in July, by the end of which month Executive Board approval would have to be completed. The tentative timetable for consideration of the drafts by the Committee of the Whole is as follows:

	<u>Start of consideration by the Committee of the Whole</u>
Chapter 2 (Second reading)	June 27 (July 13)
Chapter 3	July 6
Chapter 1 (Second reading)	July 11 (July 25)

The printed version of the report should be available in the last week of August; the report is scheduled to be released on Sunday, September 11, 1983.

## 7. Other Operational Matters

The paper "Review of the Fund's Income Position for the Financial Years 1983 and 1984" is scheduled for Board discussion on May 13; the level of the SDR interest rate, the rate of remuneration, and charges will also be reviewed on that day. Furthermore, a review by the Executive Board of the level of the Fund's SDR holdings is called for not later than May 15; in view of its bearing on the Fund's income position, that review will also be scheduled for May 13.

A "Report on the Borrowed Resources Suspense Accounts" will also be issued for background information.

The paper "Oil Facility Subsidy Account - Final Annual Review and Winding up the Business of the Account" would be prepared for Board consideration tentatively on May 27. The quarterly operational papers on the designation plan and the operational budget for the June-August quarter would be for agenda on June 15.

8. Other Policy Matters

Turning to other policy matters, I would like to note the following:

(a) The paper "Fund Policies and External Debt Servicing Problems" (SM/83/45) together with the background paper entitled "Data on International Banking and External Debt" (SM/83/48) have been circulated for consideration by the Executive Board on April 6.

(b) Development Committee meeting on April 28-29. The Annotated Agenda (EB/CW/DC/83/1) and a joint Fund-Bank paper on "Linkages Between Trade and the Promotion of Development: (EB/CW/DC/83/2) are on the agenda for March 28. In addition, a paper "External Debt and Debt Service of the Developing Countries" (SM/83/49), summarizing and updating the information on developing country debt presented in the recent World Economic Outlook papers (ID/83/1 and ID/83/2), has been prepared as a background document for the Development Committee and would also be a background document for the Executive Board discussion of external debt servicing problems on April 6.

(c) At the Ministerial Meeting of the General Agreement on Tariffs and Trade (GATT) in November 1982, the Director General was directed to consult with me regarding a study on the effects of erratic fluctuations in exchange rates on international trade. A paper on this topic will be brought to the Board some time in the fall before it is provided to the GATT.

(d) A paper reviewing developments and prospects in international capital markets will be scheduled for Board consideration on June 17. It is planned to issue it by the third week of May so as to have it available for background information at the time of the Executive Board discussions of quota limits applicable to the access of Fund resources, scheduled tentatively for May 18 and June 3.

(e) The draft of Part I of the "Annual Report on Exchange Arrangements and Exchange Restrictions, 1983" would be circulated later this month. As last year, Executive Directors would be invited to give comments directly to the staff and following their incorporation, Board approval of the revised version would be sought on a lapse-of-time basis.

(f) The staff study "Currency Unions" (SM/82/183) has been scheduled for Board discussion on May 4.

(g) The paper "Interest Rates and Tax Treatment of Interest Income and Expenses" is tentatively scheduled for Board discussion on May 27.

(h) Reports on the technical assistance programs and on the seminar program for nonofficials are tentatively scheduled for discussion on May 25.

(i) A report on the operation of the buffer stock and related developments in connection with the 1977 International Sugar Agreement will be circulated for the information of the Executive Board.

9. Administrative Matters

The Administrative Budget for FY 1984 is scheduled for Board consideration on April 15. Papers on the review of expatriate benefits and on the 1983 compensation review are under preparation and the timing of their consideration by the Executive Board will have to be coordinated with the World Bank; for the present, they have been tentatively scheduled for May 4 and May 20, respectively.

A draft tentative schedule of Board meetings, including proposed agenda dates, has been circulated (Secretary's Circular No. 83/28, 3/11/83). For major items, wherever possible, firm dates are indicated by an asterisk. It has been suggested that the customary informal Board recess be taken during the second and third weeks of August, viz., Monday, August 8 to Friday, August 19.

Mr. Polak commented that it appeared unnecessary to have a separate discussion of the updated "General Survey" paper (ID/83/1) only a short time in advance of the proposed discussion of the World Economic Outlook. The planned discussion of various minor changes in the SDR was a follow-up to a Board discussion in July 1982. It would be preferable to hold it soon after the forthcoming IMF Conference on International Money, Credit, and the SDR.

The Board was promised a paper on the requirement of need, Mr. Polak noted. However, a new discussion of the theory of the requirement of need as it applied to the compensatory financing facility and the buffer stock financing facility would be unlikely to contribute much to the well-established principles in that area. He had read the paper concerning linkages between trade and the promotion of development, circulated in connection with the forthcoming meeting of the Development Committee--item 8(b) of the Chairman's statement. It was basically an information paper and it should be considered simply as background material when Directors discussed the annotated agenda for the Development Committee.

The staff paper referred to in item 8(g) of the Chairman's statement, "Interest Rates and Tax Treatment of Interest Income and Expenses," was welcome, Mr. Polak continued. However, it might not necessarily warrant an Executive Board discussion. He suggested that the Secretary canvass Directors when the paper was circulated to assess whether there

was sufficient interest in a discussion. Similar considerations applied to the planned reports on technical assistance programs and on the seminar program for nonofficials.

Mr. Moerke said that he agreed with Mr. Polak's remarks concerning items 8(b) and 8(g).

Mr. Kafka remarked that, with regard to the Fund's liquidity position and financing needs, item 1, perhaps the time had come to look more closely at the prospects for market borrowing. The commitment gap on borrowed resources was a matter of increasing concern. With regard to SDR matters, item 3, it would be worthwhile if the staff examined, together with the review of other improvements in the SDR, the speed with which such assets could be transferred as well as the publicity attendant upon such transfers, and, possibly, transfers in the reserve tranche. Publicity did not enhance the attractiveness of any asset.

A discussion of enlarged access policy would not become urgent until either the quota increase was about to go into effect or the next meeting of the Interim Committee became imminent, Mr. Kafka continued. It would be appropriate to avoid a decision until the Interim Committee had had an opportunity to discuss the issue. Similar considerations applied to the proposed discussion of the compensatory financing facility. He fully agreed with Mr. Polak that it was unnecessary to discuss the requirement of need in relation to the facility. It was also unnecessary to have a new Board discussion on conditionality as it applied to the compensatory financing facility. Indeed, the proposed papers might be unnecessary.

The proposed study of the effects of erratic exchange rate fluctuations on international trade, and the paper on interest rates and tax treatment of income and expenses were both welcome, Mr. Kafka commented. It would also be appropriate to have a study of the development of interest income and dividends in different countries. The recent volatility of interest rates had become more important because of the major increase in the relative importance of interest income compared to dividends. In the United States, for example, the two amounts had been equal in 1950, whereas interest income was more than five times as large as dividend income at present. The development was not simply a characteristic of the recent period of high interest rates. Finally, a paper on the possible need for a bridging credit facility in the Fund could be appropriate.

Mr. Portas observed that the staff, in preparing the background papers for the Executive Board discussion of the SDR, would take into account not only the previous Board discussion of the issue and the relevant economic data, but also the proceedings of the forthcoming IMF Conference on International Money, Credit, and the SDR. Therefore, it might be useful to have a summing up of the major points, since the conference would deal with important issues and policies. With regard to the planned discussion of enlarged access policy, he noted that the review of that policy implied a review of most of the Fund's activities. Decisions on issues such as the SDR, conditionality, borrowing by the Fund, and Directors' views on

the short- and medium-term outlook for the world economy had a considerable bearing on enlarged access policy. He was confident that the staff would take all facets of the issue into account in preparing the paper.

Mr. Salehkhoul stated that the discussion of the work program for the coming six months provided a good opportunity to review the timetable and to set priorities with respect to some pressing issues confronting Directors in the immediate future. He endorsed the main points of the Managing Director's statement. With regard to the Fund's liquidity position and financing needs, he welcomed the efforts being made by the Managing Director in connection with Fund borrowing and he looked forward to the successful conclusion of the negotiations.

The World Economic Outlook paper would prove useful in presenting the likely trend of developments in the world economy in the face of the serious economic conditions that continued to prevail, Mr. Salehkhoul considered. The timing of the publication of the draft report on the World Economic Outlook was appropriate as it provided ample opportunity for reviewing the report prior to the meeting of the Development Committee. He welcomed the April discussion of the report by the Board.

The staff should give due weight to the pressing problems of the developing countries when preparing the reports on SDR matters, Mr. Salehkhoul continued. He noted the Chairman's statement that the staff would bear in mind the proceedings of the Conference on International Money, Credit, and the SDR. However, he hoped that any conclusions from the conference that might be adverse to the long-standing position of Third World countries would have no bearing on the staff reports, since those countries' contribution to the conference had not been sought and they were not adequately represented at the conference.

Commenting on the question of the use of Fund resources and on the review of the policy of enlarged access, Mr. Salehkhoul observed that, apart from the prevailing proposal to maintain the present limits on access and the different opinion of those who favored a possible reduction, there were also Directors who believed that the present arrangements did not deal adequately with the particular needs of the developing country members and that, within the overall limits, the ceilings on specific facilities such as the compensatory financing facility should be raised. That suggestion and its ramifications should also find a place in the forthcoming report.

Mr. Taylor said that he agreed with Mr. Kafka that the time had come to hold a Board discussion of the issues related to borrowing in the year ahead, including borrowing from both official and private sources. He hoped that it would be possible to hold such a discussion when the negotiations with the Saudi Arabian authorities regarding their prospective association with the expanded General Arrangements to Borrow (GAB) came closer to resolution, and when the Chairman was in a position to see more clearly how the discussions on the third tranche of the Saudi Arabian Monetary Agency (SAMA) loan were to be resolved. Perhaps the discussion of the Fund's liquidity position scheduled for April 8, 1983 might provide an opportunity for an initial consideration of those issues.

Mr. Hirao noted that the staff would prepare papers on how to identify cases in which exchange rates were viewed with concern, and that the proposed papers would give renewed attention to the Board's assessment of balance of payments developments in the medium term. It was important to assess balance of payments developments both for individual members and in a multilateral context. However, such an assessment in a medium-term framework would be extremely difficult as the balance of payments would reflect developments related to unknown or uncertain factors. Various assumptions would have to be made in the preparation of reasonable projections. Any unanticipated change in those assumptions might result in a drastic change in the outcome of the exercise, so that there was a risk that judgment based on such projections could turn out to be misleading. Accordingly, extreme caution ought to be exercised in making such assessments.

Mr. Malhotra observed that a paper on the Fund's liquidity position and financing needs was scheduled for discussion on April 8, 1983. He was particularly interested in learning about management's view with regard to the use of GAB resources as a means of improving the Fund's resource position. Another opportunity to discuss the World Economic Outlook would be welcome, especially in view of the major changes that had taken place in oil markets and oil prices. He noted that the Executive Board had a mandate from the Interim Committee to look into SDR matters and he hoped that the Board's discussion would focus on the need to improve reserves, of which SDRs were an important element.

He could not agree with Mr. Polak's suggestion that the paper on the linkages between trade and development need not be discussed, Mr. Malhotra commented. The paper was important, although it need not necessarily be discussed in connection with the agenda of the Development Committee. The staff review of the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports was to include a review of the experience with respect to overcompensation in early drawings. It should also include experience with respect to undercompensation.

Mr. Lind<sup>a</sup> that he supported the work program as presented.

Mr. Schneider said that he agreed with the comments made by Mr. Polak.

Mr. Zhang said that he also supported the proposed work program. However, would it not be possible to shorten the Annual Report? Although the report was of high quality, both the discussion and the Annual Report itself were excessively lengthy. Perhaps Directors could make written comments first, so that the Executive Board would focus on the alternative suggestions rather than having to draft the paragraphs of the Report during the Board discussion.

Mr. Alfidja commented that he agreed with Mr. Salehkhoul's observations regarding the SDR and the impact of the conclusions of the forthcoming IMF Conference on the papers being prepared by the staff.

Mr. Casey observed that, in recent months, there had been many cases in which important supplementary papers had been issued to Executive Directors only a day or two before the relevant Board meeting. Perhaps it was unavoidable, given the nature of the items, but consideration should be given to ways of alleviating the problem in the future. With regard to the relationship between the Fund and the commercial banks, the issues should be examined in a broad policy context. In a number of recent cases, the Fund had played an invaluable role in cooperating with banks, donors, and countries.

A number of countries currently engaged in Fund-supported programs had drawn resources close to the cumulative limit of 600 per cent of quota, Mr. Casey recalled. Some of those countries had not yet achieved sustainable balance of payments positions and they would probably be requesting follow-up programs. The extent to which the Fund would be able to accommodate those requests was doubtful. Much would depend on the Board's decisions on access and related matters. It would be unfortunate if the Fund found itself in a position in which it had to curtail follow-up programs even though the country concerned was prepared to take strong adjustment measures, albeit belatedly. Those issues should be examined at an early date.

A review of stand-by and extended arrangements had not been included in the present work program, Mr. Casey continued. Such a review did not have to be undertaken until the end of the year, but, ideally, it would be desirable to have a sense of the effectiveness of conditionality at the time of the Board's discussion of access. It would be useful, therefore, to conduct the review of stand-by and extended arrangements as soon as possible.

In his speech at the University of Neuchâtel, Mr. Casey noted, the Chairman had said that "if confidence in Fund-supported programs were to diminish because of a weakening of conditionality, an abrupt curtailment of bank lending would seem to be inevitable." It was a real risk, made even more serious by other problems confronting the international banking system. That situation reinforced the appropriateness of an early review of conditionality.

The Fund sought to find the appropriate balance between finance and adjustment, Mr. Casey commented. In light of the growing tightness of global financial conditions, the Fund might have no choice but to place more emphasis on adjustment in the coming years. In that context, he particularly welcomed the proposed series of papers on exchange rates, not merely because appropriate exchange rate adjustment was an important form of adjustment in developed and developing countries alike, but also because the achievement of equilibrium in exchange markets could improve the chances of reducing protectionism. Finally, there had been a tendency in recent years to establish dual exchange rate systems in a number of countries in preparation for devaluations. Such systems tended to be complex, and it would be desirable if the staff could undertake a comparative analysis of those systems at an appropriate time.



Mr. Suraisry stated that he endorsed the work program as presented.

Mr. Lovato hoped that the Chairman would be able to inform Executive Directors at an early date of the outcome of his discussions with SAMA.

Miss Le Lorier asked whether the proposed discussion on currency unions would take the form of a seminar, as earlier agreed. She concurred with Mr. Polak's comments on items 8(g) and 8(h); however, she stressed that technical assistance was an essential activity and that it should not be downgraded in any respect.

Mr. Erb noted that the question of borrowing by the Fund in private markets had been kept open by the Executive Board. However, while the staff should continue to keep itself abreast of developments in the markets, it might be premature to have a formal Board discussion or staff paper on market borrowing. Executive Directors should proceed under the assumption that the quota increase would be in place by the end of 1983; the reviews of enlarged access policy and of the Fund's longer-term liquidity position should be conducted under that assumption. In addition, it might be helpful to review the Fund's economic data as reported in International Financial Statistics (IFS) in order to analyze the breadth of that data and its timeliness in relation to each country's economic developments. Such a review could help many authorities improve their own data series.

Mr. Finaish said that he supported the view expressed by Mr. Malhotra with regard to item 8(b).

The Chairman stated that Executive Directors could consider again, at the Executive Board meeting scheduled for April 8, 1983, the status of the discussions with the Saudi Arabian authorities. However, because of the Saudi Arabian budget timetable, it was unlikely that the discussions would enter into their active stage until the second part of April; thus, there were unlikely to be significant new developments before April 8. Nevertheless, a full discussion of the Fund's liquidity position and of the alternative options with regard to further Fund borrowing would be appropriate on that date. The liquidity position was sobering. Even under the assumption that the quota increase would become effective by the end of 1983, the need for sizable new borrowing in the course of the year would remain. It was out of the question to use up the Fund's available resources rapidly in anticipation of the quota increase coming into effect by the end of 1983. The risk was too great.

Operational decisions would have to be taken quickly, the Chairman continued. Executive Directors should bear in mind the potentially very large demands on the Fund by countries in clear balance of payments difficulties. Borrowing by the Fund was, therefore, inevitable. It was important that those authorities who were strongly against borrowing in the private markets should be aware of the situation if they were to be in a position to contribute to the Fund's resources. It was also important to maintain consistency: if the Fund could not borrow from the

private markets, it would have to borrow from public lenders. He hoped that those Directors who had misgivings about the resort to private markets would be able to convince their authorities to assist the Fund in such circumstances. The necessary operational decisions would have to be discussed once the position of the SAMA negotiations was clear, following the preparation of the new Saudi Arabian budget.

Commenting on the suggestions put forward by Executive Directors, the Chairman welcomed the proposal to have a discussion of relationships between the Fund and the commercial banks in a broader context. With regard to the suggestion for an early review of experience under stand-by and extended arrangements, it appeared unlikely that the timetable would permit it.

The Director of the Exchange and Trade Relations Department said that it would not be possible to undertake a systematic study of conditionality in time for the scheduled Board discussion of enlarged access policy on May 18. However, a number of aspects of conditionality would be touched upon. The staff planned to circulate papers on the broader aspects of conditionality before the Annual Meeting. Some aspects of access policy would continue to be developed following the review.

The staff had noted, like one Executive Director, the increasing importance of dual exchange rate systems, the Director continued. Work had begun on the subject, but it would be unlikely to be completed in the course of the current work program. It would be included in the succeeding program, and it would deal not only with dual exchange rate systems but also with some of the other multiple exchange rate actions that had become increasingly common among some of the larger countries.

The Chairman noted that a review of the quality, comprehensiveness, and timeliness of the Fund's data as published in IFS had been proposed. The staff would consider what could be done in that area. Further suggestions by Executive Directors concerning any inadequacies or inconsistencies in the Fund's data would be welcome.

The discussion of currency unions would be held in the form of a seminar, the Chairman continued. Directors' views had differed on the need for a discussion of an updated "General Survey" paper in the context of the World Economic Outlook. A final judgment on the question could await the circulation of the draft World Economic Outlook report for publication, incorporating updated statistical and analytical material. The Board's consideration of the minor SDR matters would be held at an early date, following the IMF Conference on International Money, Credit, and the SDR, which was not, he observed, a policymaking forum. He agreed with the suggestion that the question of undercompensation should be looked at when the Board discussed overcompensation; he also agreed that it would be unnecessary to hold a further discussion of the requirement of need and its application to the use of the compensatory financing and buffer stock financing facilities.

The joint Fund/Bank staff paper "Linkages Between Trade and the Promotion of Development" (EB/CW/DC/83/2) was scheduled for consideration on March 28, the Chairman noted. It had been proposed that the paper could be regarded as background information rather than be discussed formally. He invited those Directors who wished to make substantive comments on the paper to inform the Secretary so that a decision could be taken whether to include the paper in the Board's discussion of the annotated agenda of the Development Committee or whether it could be taken up on a separate occasion.

With regard to items 8(g) and 8(h), the Chairman added, it might be unnecessary to hold a Board discussion if Directors considered that the papers were sufficiently explicit. When the papers became available, Directors should convey their views to the Secretary.

The Deputy Managing Director noted that one Director had recommended attempting to reduce the time and effort spent on the Annual Report. It was worth mentioning that some improvements had been made in that regard in recent years; however, written observations or suggestions to the staff would facilitate discussion in the Committee of the Whole. The staff would examine closely the possibility of reducing the length of the Report. Chapter 3 of the Report did not ordinarily take much of the Executive Board's time.

Commenting on the forthcoming Conference on International Money, Credit, and the SDR, the Deputy Managing Director noted the concerns expressed by some Directors. The Conference had been suggested by some Directors in the course of a Board discussion in 1981, as a means of eliciting views from prominent economists outside the Fund, particularly those who did not hold official positions. The topics to be dealt with were very general; while outside participants might express policy views, the primary objective of the Conference was not to elicit policy recommendations but to have an open and wide-ranging discussion of issues that were important to the work of the Fund. The final session of the Conference had been conceived as an opportunity for Executive Directors to express their views on any of the papers or comments put forward by the participants. If the proceedings lent themselves to a summing up, he would ensure that it would be circulated to Directors. The Conference did not have an official standing nor would it attempt to reach conclusions or a consensus on policy issues. Policy formulation remained, as always, within the Fund.

Mr. Salehkhoul remarked that, while he accepted that the Conference was intended to solicit the views of certain academic economists, it would have been appropriate to have included some of the outstanding economists from Third World countries.

The Chairman stated that he understood Mr. Salehkhoul's concerns, which could be appropriately expressed during the conference discussions.

The Executive Directors agreed upon the work program until the 1983 Annual Meeting, with amendments suggested by Directors, and decided on the period beginning Monday, August 8, 1983 and extending through Friday, August 19, 1983 as the period for the informal Board recess.

3. DRAFT MINUTES - POSTPONEMENT OF APPROVAL

Mr. Finaish requested that the proposed lapse-of-time period suggested in EBD/83/68 (3/15/83) for a decision regarding the draft minutes of Executive Board Meeting 82/131 be extended until March 28, 1983. First, he had had insufficient time to consider the memorandum sent by the Acting Secretary in connection with the minutes, as that memorandum had been circulated only the previous working day. Moreover, the reservation expressed by Mr. Polak in the attachment to the memorandum had already been included in the minutes of the relevant Board discussion, and it was not clear to him why it should be repeated in the decision approving the final minutes of the said discussion. Second, some of the changes introduced in the final draft minutes did not accurately reflect the written statement of his concluding remarks at that meeting. He wished to discuss the matter more fully with the staff.

The Executive Directors then took the following decision:

The lapse-of-time period within which Executive Directors are to consider the draft minutes of Executive Board Meeting 82/131 (10/1/82) has been extended to the close of business on Monday, March 28, 1983. (EBD/83/68, Sup. I, 3/21/83)

Adopted March 21, 1983

APPROVED: August 23, 1983

LEO VAN HOUTVEN  
Secretary

ANNEX

Timetable for Article IV Consultations  
Included in the Work Program Until  
End of June

<u>Country</u>	<u>Tentative Expected/Scheduled Date for Board Discussion</u>
1. Yugoslavia	March 11
2. Japan	March 18
3. Kenya	March 21
4. Uruguay	March 23
5. Greece	March 23
6. Lebanon	March 23
7. Rwanda	end-March
8. Gabon	April, first half
9. Bahamas	mid-April
10. Zambia	mid-April
11. Central African Republic	April, second half
12. Ivory Coast	end-April
13. Spain	end-April
14. Barbados	mid-May
15. Ecuador	mid-May
16. Mauritius	mid-May
17. Mexico	mid-May
18. Panama	mid-May
19. Afghanistan	May, second half
20. Korea	May, second half
21. Ghana	May, second half
22. Guinea Bissau	May, second half
23. Guatemala	late May
24. Israel	late May
25. St. Lucia	late May
26. Venezuela	late May
27. Belize	early June
28. Colombia	early June
29. Portugal	early June
30. Upper Volta	June, first half
31. Niger	June, first half
32. Egypt	mid-June
33. France	mid-June
34. Seychelles	mid-June
35. Turkey	mid-June

36.	United Arab Emirates	mid-June
37.	Ethiopia	June, second half
38.	Guinea	June, second half
39.	Costa Rica	late June
40.	Oman	late June
41.	United States	late June
42.	Viet Nam	end June/early July

Reviews Under Stand-By and Extended Arrangements  
Included in the Work Program Until  
End of June

1.	Romania	March 30
2.	Madagascar	late March/early April
3.	El Salvador	April, second half
4.	Ivory Coast	end-April
5.	Peru	May, first half
6.	Mexico	mid-May
7.	Barbados	mid-May
8.	Jamaica	late May
9.	South Africa	late May
10.	Zimbabwe	mid-June
11.	Guinea	June, second half
12.	Costa Rica	late June
13.	Dominican Republic	late June
14.	Hungary	late June
15.	Togo	late June