

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/153

10:00 a.m., November 13, 1991

M. Camdessus, Chairman  
R. D. Erb, Deputy Managing Director

Executive Directors

M. Al-Jasser  
Che P.  
T. C. Dawson  
E. A. Evans  
M. Finaish  
I. Fridriksson  
H. Fukui  
B. Goos  
J. E. Ismael  
A. Kafka  
J.-P. Landau  
A. Mirakhör  
D. Peretz  
G. A. Posthumus  
C. V. Santos  
A. Torres  
A. Végh

Alternate Executive Directors

A. A. Al-Tuwaijri  
L. E. N. Fernando  
G. C. Noonan  
Q. M. Krosby  
J. Prader  
G. H. Spencer  
N. Kyriazidis  
J. A. Solheim  
N. Tabata  
J. C. Jaramillo  
L. J. Mwananshiku  
P. Wright  
R. Marino  
A. G. Zoccali

L. Van Houtven, Secretary and Counsellor  
M. J. Miller, Assistant

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Also Present

Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; H. Wiesner. African Department: M. Touré, Counsellor and Director; M. Katz, R. C. Williams. Central Asia Department: Y. Horiguchi. Southeast Asia and Pacific Department: K. Saito, Director. European Department: J. Artus. Exchange and Trade Relations Department: J. T. Boorman, Director; J. Ferrán, Deputy Director; T. Leddy, Deputy Director; G. R. Kincaid. Fiscal Affairs Department: V. Tanzi, Director; T. M. Ter-Minassian, Deputy Director. Legal Department: F. P. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy Director; P. L. Francotte. Middle Eastern Department: S. H. Hitti. Research Department: G. Hacche, P. R. Masson. Secretary's Department: C. Brachet, Deputy Secretary; J. W. Lang, Jr., Deputy Secretary; G. Djeddaoui, A. Tahari. Treasurer's Department: D. Williams, Treasurer. Office of the Managing Director: P. R. Narvekar, Special Advisor; J. Hicklin. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: J. M. Abbott, P. Bonzom, M. B. Chatah, L. Dicks-Mireaux, B. R. Fuleihan, A. Gronn, B. A. Sarr, B. Szombati, A. M. Tanase. Assistants to Executive Directors: J. H. Brits, S. B. Creane, Deng H., T. P. Enger, S. K. Fayyad, M. A. Hammoudi, K. Ishikura, J. Jamnik, P. K. Kafle, W. Laux, R. Meron, F. Moss, M. Mrakovcic, L. F. Ochoa, E. H. Pedersen, R. K. W. Powell, Tin Win, J. W. van der Kaaij.

1. REPORT BY MANAGING DIRECTOR

The Managing Director, reporting on his visit to Brussels to attend the meeting of the Ministers of the Group of 24 countries on coordinated economic assistance to the countries of Central and Eastern Europe, stated that he had consulted with the President of the Commission of the European Communities, Mr. Jacques Delors, during his visit to Brussels, on cooperation between the Fund and other institutions in Central and Eastern Europe and in the U.S.S.R. The communiqué of the Ministers of the Group of 24 countries would be circulated (EBD/91/299, 11/13/91), but he wished to call the attention of Directors to a number of points.

First, the Group of 24 approach would be extended to Albania and to the Baltic countries, but the issue of whether or not it would be applied to the U.S.S.R. had not been raised, the Managing Director noted. Second, the basic principles of the approach, including in particular that all forms of exceptional balance of payments assistance would be linked to active Fund-supported programs in those countries, was reaffirmed unanimously. The Ministers had expressed their desire that the Fund do as much as possible to assist the countries with the design of programs. Away from the meeting itself, a chief topic for discussion had been how the Fund might adapt itself to enable it to become more involved in the U.S.S.R. An expansion of the staff might be unavoidable if the Fund was to be able to meet the expectations not only of its current membership, but of the U.S.S.R. as well.

Ministers recognized the need to complete the financing for Bulgaria and Romania for 1991, and they stressed that those who had been late in making disbursements should act expeditiously to make the financing available as soon as possible and should design more effective procedures for 1992, the Managing Director recalled. He had welcomed the decision of the Council of Ministers of the European Economic Community (EEC) to approve the proposal from its current President--the Netherlands--to suspend under the circumstances the decision requiring matching disbursements from non-EEC members of the Group of 24 countries on the EEC loans for Bulgaria and Romania, thus permitting the immediate release of ECU 186 million to Bulgaria and ECU 276 million to Romania. Those disbursements would be made subject only to the Fund's verification--which he had provided--that it would continue its own disbursements and program monitoring for those two countries, and that the EEC's disbursements were essential for the success of the Fund-supported programs. He would make an official confirmation of those points to the President of the Commission of the European Communities and to the EEC Council of Ministers in due course. He had been pleased that the Government of Sweden had pledged to follow suit in disbursing the remaining part of its own contributions, and that it had strongly encouraged others to reconsider the timing of their disbursements.

Representatives from Albania and the Baltic states had emphasized that their countries needed assistance on an urgent basis, the Managing Director went on. The EEC Ministers continued to stress the importance of preserving

human rights, and--more particularly--the rights of minorities, especially taking into account recent developments in Yugoslavia. They also expressed concern about the problem of unsafe nuclear power plants, and the advisability of decommissioning one in Bulgaria. Of course, such actions would carry significant costs, which would have to be borne chiefly by the country concerned, but the Group of 24 countries would also need to consider how they could provide assistance with the aim of developing alternative energy sources, in order to make the entire region--indeed, the entire planet--safer.

He had asked the President of the Commission of the EC, Mr. Delors, about the prospects for a successful conclusion of the Uruguay Round and the negotiating position of the EEC in that connection, the Managing Director related. Mr. Delors had interpreted very positively his conversation in The Hague with President Bush of the United States, and was now guardedly optimistic that the Round could be concluded before the end of 1991 or at the beginning of 1992, as there had been some movement in the position of both the United States and the EC. It was his personal impression that neither side wished to aggravate the prevailing pessimism with respect to the economic outlook by causing the Round to fail.

The coordination of assistance to the Eastern European and Baltic states was also discussed, the Managing Director commented. The Group of 24 insisted on the need for coordination not only at the level of heads of institutions, but also as frequently as possible in the capitals of the recipient countries, as the ambassadors of the concerned countries believed that they also should be kept informed, as well as their foreign ministers.

The various organizations working in the U.S.S.R. were attempting to delineate their respective areas of competence, the Managing Director went on. The Fund's pre-eminent responsibility in the area of macroeconomics was well recognized, and, indeed, no other institution seemed placed to share that responsibility. Another problem that all the organizations encountered was the potential for overwhelming the local authorities with missions.

The Austrian Government had offered to provide housing and support for a training center for officials from Eastern and Central Europe, the Baltic states, and the Soviet Union, if the Fund were to decide to participate in such an enterprise, the Managing Director stated. The center would be established in Vienna for a period of three to five years to provide training in macroeconomic issues and monetary and fiscal matters. He had reacted positively to that offer. He would provide Directors with more details once the modalities of the Fund's possible participation became clearer. He hoped that the other institutions cooperating with the Fund in those countries would also participate in the center, and he had made it clear that the Fund did not necessarily expect to take the lead in that regard.

Mr. Goos asked whether the Managing Director knew when more detailed information about the offer of the Austrian Government would be available. If the Executive Board became involved in the discussions of the modalities for the center only at a late stage, its contributions might be of limited usefulness.

The Managing Director said that he would take up that issue with the Minister of Finance of Austria in Vienna on November 19, 1991. He would report to the Board on the outcome of that conversation. His preliminary assessment was that the IMF Institute would have to be broadened to accommodate the Fund's participation in the center in Vienna. However, it might be less expensive to train officials from Eastern and Central Europe, the Baltic states, and the U.S.S.R. in Vienna than in Washington in IMF Institute courses, because of the lower cost of travel. About 100 people could be accommodated in the facilities that the Austrian Government had offered; it would be difficult to accommodate as many in Washington.

Mr. Prader said that the Austrian authorities intended to help the Fund as much as possible in providing the facilities for training officials from formerly centrally planned economies. The Government of Austria would grant to the Fund the same terms and conditions for the center as it had granted to other international organizations with headquarters in Vienna. The Government had wished that the other organizations involved in those countries would participate as well, but it did not wish to hold up the process if they hesitated. In that respect, the Government would support the participation of the Fund and Bank alone; the needs of the region were larger than the concerns about participating that had been raised by some of the other institutions. He was not certain when a more complete framework for the proposals would be available.

Mr. Fukui commented that he welcomed the initiative taken by management to address the training needs of officials from formerly centrally planned economies in Eastern and Central Europe, the Baltic states, and the U.S.S.R. However, the Fund needed to think about the need for training in certain Asian countries as well.

The Managing Director replied that he agreed that the needs of the formerly centrally planned economies in Europe should not blind the Fund to the need for training for officials from Asian and African countries, and he welcomed the positive contributions of the Government of Japan in that regard.

Mr. Landau said that he welcomed the proposal of the Austrian Government, to which he wished to express his appreciation. It was appropriate to have such a training center geographically close to the countries which it was aiming to assist, and for the Fund to take the leading role in its administration. Such a center could also serve as a model for similar further initiatives.

The Managing Director observed that he did not wish the Fund to be seen to be taking the leading role.

Mr. Prader said that the center could be open to candidates and officials from formerly centrally planned economies in Asia. The reason the Austrian Government had offered Vienna as the site of the center was because nationalism was rampant in Eastern Europe at present, and it might be difficult to establish such a center either in one of the republics of the U.S.S.R. or in other Eastern European countries.

The Directors took note of the Managing Director's Report.

2. WORK PROGRAM AND PROPOSED TEMPORARY CHANGES IN ARTICLE IV  
CONSULTATION CYCLES

The Managing Director made the following statement on the work program:

Following the recent Bangkok meetings, we should as usual consider our work program for the period ahead, taking into account the guidance provided by Governors and by the Interim and Development Committees. In this statement, I intend to cover in detail the work program for the period up to the next meetings of the Committees in late April 1992, and to provide indications of major tasks to be undertaken or followed up in the period thereafter.

1. Work related to the U.S.S.R. and other applicants

The Governors have welcomed the signing of the Special Association agreement between the U.S.S.R. and the Fund, and they have encouraged the authorities in the U.S.S.R. to draw on the expertise made available under the terms of the agreement in their efforts to move forward with urgently needed economic stabilization and structural reforms. As I indicated to the Board in my statement at EBM 91/147, the Fund has begun to provide extensive technical assistance and policy advice to the authorities in the U.S.S.R. In conformity with the terms and conditions of the agreement, the Fund will conduct a review of the economy and economic policies of the U.S.S.R., similar to the consultations conducted by the Fund with its members under Article IV. We need to respond rapidly to the apparent determination of the authorities in Russia to follow a reformist course. We should also provide advice on policy reform and carry out economic reviews in the other Republics. In addition, the Fund staff will prepare analytical papers assessing specific issues. These reports could be scheduled for Board discussion when they become

available. Furthermore, the Fund shall give favorable consideration to requests from the Union Republics under the terms specified in paragraph 6 of the agreement.

In the weeks ahead a number of missions are planned to visit Moscow and other republican capitals to provide technical assistance in the modernization of central bank operations and the financial system, and in the fiscal and statistics areas, and to assess training needs. Technical assistance will also be provided in the legal area.

We will also continue work on the U.S.S.R. membership application. In carrying out this task, we are faced with inadequate basic economic data and uncertainties as regards the constitutional status of the U.S.S.R. In the period ahead, the staff will intensify its work on gathering and evaluating the basic data, while awaiting clarification of the constitutional issue.

These tasks will absorb a considerable amount of staff resources. To meet these demands, and alleviate the consequent severe strain already being experienced in several parts of the Fund, we need to act expeditiously on several fronts: (i) adjust our activities and redeploy staff resources accordingly; and (ii) hire additional staff, seek staff seconded from member governments and other institutions, and recruit outside consultants. The issue of adequacy of staff resources and of the financing of technical assistance to the U.S.S.R. will be among the items taken up in the paper on the budgetary outlook in the medium term, to be issued for Board discussion on December 18 (see paragraph 8 below).

Following membership missions to other applicant countries, the necessary membership papers dealing inter alia with the calculation of quotas will be issued in the period ahead. We intend to deal with the three applications by the Baltic states simultaneously. The applications of the two Pacific countries of Micronesia and the Marshall Islands also could be handled by one membership committee.

The next regular election of Executive Directors is to be held in the fall of 1992, and the drafting of the election rules is usually considered around July. If Executive Directors wish that attention be given somewhat earlier to this matter, it would be helpful if they would inform the Secretary.

## 2. Country-related activities

On the basis of present consultation cycles, area departments project that, in the 6 months through April 1992, approximately 83

staff reports for consultations under Article IV (including 5 interim consultations) would be issued. However, delays are likely to occur. Furthermore, in light of the increasing pressures on resources, I propose that a number of consultations be postponed and that a number of countries be temporarily placed on the bicyclic or two-year consultation cycles. We will, however, need to continue carrying out annual consultations with the major industrial countries and members with programs. For other countries, the staff would retain contact with national authorities by undertaking staff visits.

Also during the next six months, around 38 reviews under existing arrangements and 10 requests for subsequent-year arrangements under SAF/ESAF are expected to be brought to the Executive Board's agenda. In addition, area departments' projections indicate that about 20 new requests for use of Fund resources may be brought to the Board in that period. Of these, 12 would be for stand-by or extended arrangements; the remainder would be for arrangements under SAF and ESAF.

### 3. Implications of the coming into effect of the quota increases

The Interim Committee urged those members who have not yet consented to the quota increases or accepted the Third Amendment to complete the necessary procedures before the end of this year. To reiterate the call I made in Bangkok for speedy actions by all those concerned, I strongly hope that the requirements specified in the resolutions will be met very soon. Let us revisit this matter by early December, bearing in mind that the Interim Committee indicated in its May 1990 Communiqué that "if it appeared that these resolutions might not be effective by this date [end 1991], the Committee would consider what steps might need to be taken."

Issues related to the coming into effect of the quota increases under the Ninth Review will need to be addressed in the period ahead. On access policy, a review must be conducted by the Executive Board before the requirement of effectiveness of quotas under the Ninth Review has been fulfilled and, in any case, no later than December 31, 1991. A broad understanding had already been reached among Executive Directors in the quota discussions to maintain maximum potential access for an interim period following the quota increase, and we should turn our attention to the modalities and remaining technical issues. The paper on Review of Access Policy and Limits in Connection with Quota Increases - Preliminary Consideration (EBS/91/152), together with a background note on the application of access policy (EBS/91/182) and the paper on Review of Fund's Liquidity and Financing Needs (EBS/91/139) could be discussed by the Board on November 15. A

short update of the Fund's liquidity position will be issued in time for that discussion. Also, as anticipated during the last Board review of conditionality, a paper on the floating nature of facilities financed by the Fund's general resources (EBS/91/186) would provide further material for the Board's review of access policy and could be slated for Board discussion at the same time.

The relevant operational budget will include provision for the receipt of reserve asset payments in connection with quota increases. The guidelines on the allocation of currencies under the operational budgets also will need to be reviewed before the increases in quotas under the Ninth General Review come into effect or before the end of 1991, whichever comes earlier. As requested by a number of Executive Directors, the paper on this subject also will examine the role of reserves in measuring members' relative external financial strength.

The Fund's level of SDR holdings will be reviewed in light of the media used in making reserve asset payments in connection with the quota increases.

The legal and procedural consequences of implementing the Third Amendment, which are of a technical nature, will need to be considered.

Also, as indicated in my last statement on the work program, the Executive Board noted in its report to the Board of Governors on the Ninth General Review of Quotas that it would examine further the working of quota formulas, and a paper on this subject is to be issued for a Board seminar after next spring's meeting of the Interim Committee.

#### 4. World economic outlook, debt, and trade issues

The spring 1992 WEO will review recent developments and assess short- and medium-term prospects and policies in the world economy against the background of alternative medium-term scenarios. Special attention will be devoted to reform issues in Central and Eastern Europe and the U.S.S.R.; the mix of expenditure and tax measures in fiscal consolidation in industrial countries as a means to raise savings; factors affecting medium-term growth and external viability; and regional issues. Executive Board discussion of the WEO papers will be scheduled for April 6-8, 1992.

We shall continue our periodic informal sessions on exchange market developments, and our next session could be held on

November 20. Further sessions could take place at the beginning of January, in early March, and on April 6, 1992, in conjunction with the WEO discussion.

The importance of a prompt and successful conclusion of the Uruguay Round has been strongly emphasized by Governors in the plenary session of the Annual Meetings and by the Interim and Development Committees. The Board will be kept informed of progress made in the negotiations. As appropriate, a paper on the implications for the Fund of an international services agreement would be issued for Board discussion. The paper on developments and issues in the world trade system (SM/91/196), has been scheduled for Board discussion on November 11. A paper discussing the interlinkages between the policies of the industrialized and developing countries, concentrating on trade issues, will be prepared jointly with Bank staff for the spring 1992 meeting of the Development Committee.

A paper on management of the debt situation would be issued for Board discussion in late March or early April 1992. It will update developments under the debt strategy, focusing in particular on progress in discussion on the modalities of official debt restructuring and on private market financing for developing countries, including the effects of developments in the area of banking supervision and regulation. At the request of the Development Committee, Fund and Bank staff will prepare jointly a progress report on the implementation of the debt strategy for the spring 1992 meeting of the Committee.

#### 5. Systemic issues and the role of the SDR

As I indicated in my statement to the Bangkok meetings, and in conformity with the call made by the Interim Committee in its April 1991 Communiqué for the Board to keep the role of the SDR under review, a paper on International Liquidity and the SDR is under preparation and could be scheduled for Board consideration in early February 1992. This paper would review the current status and role of the SDR, would examine the traditional case for an SDR allocation, and would evaluate proposals for possible modifications to the SDR mechanism itself.

The report of the Working Party on the Measurement of International Capital Flows is planned to be circulated for Board discussion in February 1992. A paper on developments and key issues in international capital markets, with accompanying background papers, would be available for Board discussion by March 1992. Particular attention will be paid in the paper to market-based fiscal policy discipline, the benefits and costs of

securitized credit market in the major industrial countries, and the role of capital market liberalization in the reform process.

A further paper on the exchange arrangements of formerly centrally planned economies would be issued for Board discussion in March 1992. This paper would discuss the rationale for various arrangements in light of the experience of countries in Eastern Europe, the Soviet Union, and parts of Asia. Building upon the earlier paper on Currency Convertibility and the Transformation of Centrally-Planned Economies, the paper would, inter alia, examine the speed of the move to convertibility, the degree of exchange rate flexibility, currency unions among constituent Republics, and the effects of exchange arrangements on trading partners.

A paper on Determinants of Equilibrium Exchange Rates, a topic relevant to the Fund's surveillance responsibilities, is planned for consideration by the Executive Board before the next Fall meeting of the Interim Committee.

As requested by a number of Executive Directors, a paper on Legal Aspects of Exchange Rate Guarantees will be issued for Board consideration before the spring 1992 meeting of the Interim Committee.

6. Policies on use of Fund resources, and design of Fund policy advice

I was encouraged by the very broad support by Governors for extending the list of countries eligible for the ESAF. A paper on the expansion of ESAF eligibility, setting out the rationale, modalities, and the necessary decisions to implement the expansion, would be issued for Board discussion in the next few weeks. An update of ESAF operations will be issued around mid-December for the information of the Executive Directors. The annual review of the operations of the SAF, ESAF and ESAF Trust is to be conducted by July 1992.

A review of the CCFF is presently scheduled to be conducted by mid-July 1992. In light of other demands on staff and Directors' time, it is suggested that the review be postponed. In the meantime, the staff will prepare by mid-year a short paper factually updating the experience under the facility, including the temporary oil element, other compensatory financing and the operation of external contingency mechanisms. The Executive Board could then decide, in light of this report and other work pressures, on a suitable time to conduct the substantive review of the facility.

The staff is continuing work on a variety of issues in the design of Fund policy advice. Necessarily, some elements of our research program will be sacrificed temporarily in order to respond to emergency needs for staff resources in other activities. The paper mentioned in the last statement on the work program, dealing with the role of financial markets and intermediation in transforming centrally planned economies, could be ready for Board discussion in March 1992. A paper on economic implications of unproductive public expenditure would be issued for Board consideration in December 1991, possibly in a seminar form. The paper on issues in energy pricing policy (EBS/91/129) was circulated last August and could be brought to the agenda. Other research topics include: economic reforms, subsidy reduction and social safety nets; quasi-fiscal operations of the central banks; transformation of formerly centrally planned economies; exchange rate and interest rate policies; stabilization in high-inflation countries; and specific studies on the Soviet Union. Material on most of these will be made available in the form of Working Papers.

#### 7. Other operational matters

A mid-year review of the Fund's income position is to be held by mid-December 1991, and a paper will be issued for Board discussion in early December. The next annual review of the Fund's income position will be issued in April 1992 in time for the Board's discussion of the Administrative Budget. An update to this review, including the question of the determination of the rate of charge for FY 1993, will be provided in late May for consideration by the Executive Board shortly thereafter.

A paper on the cooperative strategy on overdue obligations will be issued for Board consideration in March 1992. The paper, which would incorporate the six-monthly report on overdue obligations, would review progress and prospects under the strategy, focusing in part on the rights approach and the implications of the impending deadline (spring 1992) for the availability of this approach. The periodic reviews of individual arrears cases will take place as needed in light of Executive Board decisions.

A number of Executive Directors have requested a seminar discussion on the broad principles of burden sharing and possible alternative approaches. There also have been suggestions to review the Fund's rate of charge and cost of Fund financing. A seminar to cover these matters could be held in January 1992. The staff would prepare documentation to assist in the discussion at the seminar. On the basis of this discussion, we would consider what further work should be undertaken. We shall in any case conduct a review of the burden sharing decision before it expires

at the end of the Fund's financial year, and also review the extended burden sharing decision by that time. In addition, the regular review of the present system of special charges, following its amendment in May 1991, will need to take place before end-April 1992. The review could include the possibility of further modification to, or even elimination of, the system of special charges, as requested by many Directors.

The quarterly Operational Budgets and Designation Plans will as usual be brought forward in accordance with established procedures. Papers reviewing the Fund's liquidity position will be issued in early March and in September 1992.

8. Administrative and related matters

Consistent with the July 1991 statement by the Acting Managing Director on the Fund's Administrative Budget process, documentation on the budgetary outlook in the medium term will be issued for Board discussion on December 18. This documentation will include an in-depth examination of current budgetary expenditures and the management views on future work priorities and on the work activities which consequently should increase, decrease, or remain the same for FY 1993 and beyond (FY 1994-95) and its views on the expenditure implications for each work activity. Consideration of the Administrative and Capital Budgets for FY 1993 could take place on April 15, 1992.

A further paper entitled "Establishment of an Administrative Tribunal for the Fund--Proposed Statute" will be issued before the end of 1991 for Board discussion at a time to be agreed. The paper will draw on the comments being made by Executive Directors on the draft statute and will summarize our consultations with the staff.

In addition, among the other administrative items requiring Board attention in the next few months are a paper on the mid-year review of FY 1992 administrative and capital expenses to be circulated in December 1991; a paper for the 1992 Staff Compensation Review to be considered in March 1992; and a paper on the joint Bank/Fund review of the tax allowance system.

The Managing Director then made the following statement on temporary changes in Article IV consultation cycles:

As I noted in my statement of November 6 on work related to the U.S.S.R. (EBM/91/147), we need to take exceptional measures to cope with the recent demands that have been placed on the Fund and to alleviate the severe pressure on staff resources. One measure

will involve altering the schedule of Article IV consultations on a temporary basis. I propose to implement the changes indicated in the table (see Annex) after November 15, 1991 until May 1, 1993, although I hope that it will be feasible for me to propose reverting earlier to more normal surveillance procedures.<sup>1/</sup>

Let me establish a few points of principle in forwarding this action plan. First, surveillance remains central to the Fund's operations. There is no intention to diminish the primacy of consultations or to imply that economic developments in members are of any less concern than in the past.

Second, annual consultations will continue to be held with the seven largest industrial countries and with program countries as well as arrears cases. Program countries are meant to include countries where substantive discussions are underway on a program to be supported by Fund resources. For all other members, the consultation cycle specified as of end-June 1991 will be shifted on an across-the-board basis and will apply to consultation missions scheduled after November 15, 1991. Countries currently on the standard cycle will be shifted to the bicyclic procedure with an interim consultation as the next consultation in all cases. Countries currently on the bicyclic procedure will be shifted to a 24-month consultation cycle. The implication is that the next consultation will take place 24 months from the date of the previous full or interim consultation. The 18-month cycle will be shifted to 24 months, and the 24-month cycle will remain unchanged.

Third, in order to successfully accomplish the required shift in staff resources, it will be necessary to adhere firmly to these new, temporary consultation cycles. However, it is also clear that changing circumstances of members would have led to recommendations to alter cycles independent of, and in some cases in a different direction from, the present exercise. Therefore, I want to stress the importance of flexibility in meeting the needs of the membership in pursuit of the Fund's objectives. Within the scope of limited staff resources, area departments may send small staff teams to keep abreast of developments and to provide policy advice as appropriate, especially in those cases where more frequent contact with the staff has been established and has been particularly effective. Should the situation or prospects change in a significant way for any member, I will bring the matter to the attention of Directors. Likewise, should program discussions be undertaken with a member with a view to a Fund-supported arrangement, it may be useful to conduct a consultation before presenting the program to the Board. You will also recall that,

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<sup>1/</sup> Reproduced in Annex, and later revised (see EBD/91/311 (11/22/91)).

under the modified bicyclic procedure, interim consultation reports can be scheduled for Board discussion at the request of a Director, as was the case last week of Solomon Islands. I would also remind Directors that recourse is available to the supplemental consultation procedure, adopted by the Board in 1979, where circumstances warrant.

Fourth, these shifts in consultation cycles reflect only one action to be taken to enable us to respond immediately to the demands imposed by work on the Soviet Union and the Baltic states. I want to stress that these changes are temporary and that the principle of annual consultations, as endorsed by this Board, should remain the desired norm. In the meantime, I ask understanding on the part of all of your authorities in making these proposals.

Mr. Mirakhor made the following statement:

We welcome the discussion of the work program and thank the Managing Director for his comprehensive statement. Since we are in agreement with the thrust of the statement, we only have a few remarks to make.

On the work related to the U.S.S.R. and other applicants, we find the strong support given by the Governors during the Annual Meetings to the agreement on special association between the U.S.S.R. and the Fund to be of special importance to our work in this area. We therefore look forward to the discussion of the Article IV-like report on the U.S.S.R., as well as to the analytic reports assessing specific issues. These efforts should be challenging to the staff, particularly in view of the Managing Director's statement that "we are faced with inadequate basic economic data and uncertainties as regards the constitutional status of the U.S.S.R." While we support the practical measures outlined in the statement, there are a number of concerns we would like to mention.

First, we hope that the redeployment of the staff and other emergency measures will have as short a duration as possible, and will not be at the expense of member countries needing most the assistance of the Fund. Second, we hope that the filling of staff vacancies should follow enunciated recruitment principles, including those relating to as wide a geographical representation as possible. Similarly, outside consultants should also be sought from the broadest possible spectrum of the membership. In this regard, we were interested in comments made by the Directors on the occasion of the Board discussion on Ghana (EBM/91/146, 11/1/91), to the effect that the Ghanaian and other African cases

could be of relevance to the reform process under way in Eastern Europe. Third, we look forward to the forthcoming discussion of the budgetary implications of such an important reorientation of the Fund's activities, and we reiterate our call for finding more imaginative ways of financing these activities. Our concern is that, given the existence of a floor on the rate of remuneration, and the fact that this floor is already reached to accommodate the contribution of creditor countries to the burden sharing scheme linked to the arrears, the developing borrowing countries will carry an undue burden. Our final concern relates to the provision of timely and high quality technical assistance for deserving cases.

On the issue of the implications of the coming into effect of the quota increase, we have urged the Governors of our constituency who have not done so already to expedite the necessary actions to consent, and we are prepared to consider in the Board possible courses of action by early December 1991. We are also prepared to consider the access limits on the Fund's resources, the Fund's level of SDR holdings, and other related issues.

On the world economic outlook (WEO), debt, and trade issues, we agree on the outline of subjects to be addressed in the framework of the WEO to be presented for Board discussion in April 1992, and we fully concur with the importance attached to trade issues by the management and the staff. We also attach great importance to the paper on the interlinkages between the policies of the industrial countries and developing countries, which is to be prepared at the request of the Development Committee. Here, I would like to underline the importance of the emphasis that the staff attaches to trade issues.

As military threats subside, economic and trade cooperation among nations becomes far more important than in the past in maintaining peace and strengthening the global system of security, thus reinforcing interdependence and the need for a framework designed to serve international security and political stability. Moreover, an increasing number of countries--many of them at the behest of the Fund--are making strong attempts toward integration of their economies into the world economy by basing their growth and development on the free play of market forces. At the same time, however, increasing interdependence has made competition to win and maintain markets more intense, which, as the staff's excellent set of papers on the world trade system so ably showed, has led the more advanced countries to the increasing use of unilateral and bilateral trade policies to protect their markets, and also to substitute for traditional macroeconomic policies the implementation of which entails domestic political costs. Therein lies a dilemma. After the painful adjustments and reforms that

many developing countries have undertaken in order to provide a firm foundation for diversification and export orientation, protectionist policies in the advanced countries are making access to export markets difficult for the developing countries. The industrial countries meanwhile are facing difficult problems of domestic financial and labor market imbalances. Of course, the Fund can--as it has been doing--continue to encourage the industrial countries to undertake the needed reforms, but there is some evidence to suggest that the problems of both the developing countries and the industrial countries stem from some fundamental changes that have occurred in the very fabric of the world economy. These changes seem to be characterized by a secular decline in the labor and raw material intensity of industrial production.

To illustrate the point, consider the following data obtained from the recent International Financial Statistics Yearbook. Over the last 30 years--between 1961 and 1990--industrial production in the industrial countries has increased by 197 percent, while employment in these countries as a whole has increased by only 38 percent during the same period. This decline in the labor intensity of industrial production indicates the phenomenal growth of productivity in the industrial countries, on the one hand, but, in the absence of structural adjustment, it also implies on the other hand a deep-seated and difficult problem of structural unemployment in these countries. In addition, the raw material intensity of manufacturing in industrial countries seems also to have exhibited a secular decline. This can be inferred indirectly from the increase in the prices of industrial products relative to nonfuel commodities prices--of the order of 56 percent over the last 25 years. It is important to note that this trend took place against a backdrop of an increased supply of nonfuel commodities.

I realize that this is only a case of casual empiricism, but it is meant only to be suggestive, in the sense that if further and more capable staff investigation confirms the existence of these secular trends, it will indeed be a disturbing development, on the one hand, because the outward orientation of developing countries and their external indebtedness both require that they have access to the markets of the industrial countries in order to sustain their growth, while enhancing their ability to service their debt. On the other hand, the pressure from structural unemployment will induce industrial countries to take further protectionist measures to safeguard their domestic labor markets.

It may thus be worthwhile for the staff to undertake a study of these long-term trends, either within the framework of the WEO or the paper to be prepared at the request of the Development Committee. If these trends are confirmed, it will indicate that

new and imaginative solutions are needed to solve the interdependent difficulties faced by both the industrial and the developing countries.

On systemic issues and the role of the SDR, given the severe resource constraints facing the Fund, technical discussions of the issues involved should be undertaken only when there is a reasonable assurance that all interested parties can agree to an SDR allocation.

While we welcome the paper on the exchange arrangements of formerly centrally planned economies, its subject matter is of equal interest to member countries in other parts of the world, especially those that are close to convertibility. Perhaps the coverage could be broadened to include conceptual discussions that would be of value to these other countries as well.

On policies on the use of Fund resources and the design of Fund policy advice, we regret the postponement of the long-awaited review of the compensatory and contingency financing facility (CCFF). We wonder whether it would be possible for the proposed shorter paper to consider some immediate changes in the CCFF which may be feasible in light of the experience accumulated by the staff.

On other issues under the same heading, although we concur with the necessity of forgoing temporarily some elements of our research program, we believe that some of the topics which may appear as working papers--such as social safety nets, subsidy reduction, and stabilization in high-inflation countries--deserve careful consideration by the Board.

Mr. Kafka made the following statement:

We are in fundamental agreement with the Managing Director's work program. However, we are concerned--as we were earlier--that it may prove too heavy, both in terms of time and in terms of the budgetary burden. Therefore, after listening to today's debate, and in addition to giving us an early estimate of the budgetary impact, the staff should make an additional effort to eliminate items which do not merit the highest priority.

We agree with the Managing Director that one of the matters which may have a higher priority this year than usual, because of changes in the membership of the institution, is the matter of election rules. Whether this can be left to be decided in July

1992 or whether we should start thinking about it earlier is something which we should discuss if not necessarily today, then in the very near future.

Regarding country-related activities, the Managing Director classifies as consultation discussions which cannot be postponed those with major industrial countries and those with members that have Fund-supported programs. We must accept at least a third category: countries without programs, but which need consultations to get access to non-Fund resources. Perhaps there is a fourth category--countries which may request Fund-supported programs in the foreseeable future. I do not mean to suggest that this group of countries should necessarily have its consultation discussed in the Board before the programs come to the Board.

Regarding systemic issues, the determination of equilibrium exchange rates is in need of further Board discussion. Beyond that, we should again look at the exchange rate mechanism. It was somewhat peculiar that in the communiqué of the Interim Committee, no mention at all was made of the international monetary system in general, except in the context of the Uruguay Round and the quota increase and Third Amendment matters. We should also discuss the SDR.

The question of burden sharing and special charges is a matter which we will not be able to postpone.

There are at least two papers that could be postponed without damage; no doubt there are others. First, we see no need to discuss unproductive expenditures. What can the Fund say about them, other than that such expenditures should be avoided or at least reduced, which, besides being obvious, we have already said, and can repeat without further discussion? Even the rate of elimination or reduction of these expenditures, which is a macro-economic problem, is unlikely to evoke helpful comments from us. Also, we fully agree with the postponement of the CCFF review.

In contrast, a paper which we must discuss and dispose of definitively is that dealing with the administrative tribunal. This matter has already been delayed for far too long. I support the establishment of an independent evaluation unit at the earliest possible opportunity.

Mr. Landau made the following statement:

I am generally in agreement with the content of the work program as proposed by the Managing Director. This chair approves the significant work program initiated for the U.S.S.R. and the

union republics. The Fund is confronted with a historic challenge, and it must assume all of its responsibilities in the macroeconomic field.

Both of these new tasks will require that measures be taken so as not to put too large a strain on the staff's work load. This chair supports the idea of acting on several fronts: adjusting and redeploying, and hiring and recruiting additional staff or outside consultants. However, the Fund should not give up what is one of its essential missions--the surveillance over the macroeconomic policies of industrial countries, which would not be in the interest of any part of the membership. Also, to the extent that redeployment is occurring, it should take place not only within the European Department, but rather it should be planned and implemented on a wide basis across the institution. Finally, we should not shy away from some of the budgetary consequences of the unprecedented challenge which the Fund is facing. We are looking forward to further discussions on this issue.

Special attention should be given to the coming into effect of the quota increases under the Ninth General Review. This matter is of the utmost importance for the coming activities of the Fund. I welcome the idea of returning to this matter by early December 1991. If at some stage the review shows that insufficient progress has been made, the Board should be prepared to consider further proposals, according to the procedure agreed to in the Interim Committee.

I very much welcome the emphasis put on policies aimed at raising savings and on regional issues in the WEO.

I welcome the fact that four meetings on exchange market developments have been scheduled up to the spring 1992 meeting of the Interim Committee. It is appropriate to review exchange market developments on a bimonthly basis. I also welcome the papers to be issued for Board discussion on the exchange arrangements of formerly centrally planned economies and on the determination of equilibrium exchange rates. The former is certainly necessary to shed some light on a very difficult issue which persists after two years of economic reform. The latter paper has been strongly recommended as a matter for research by this chair and will be of great importance if the Fund is to discharge its systemic obligations in the future.

I am looking forward to the Fund paper on the implications of an international services agreement, and to the paper that the Fund and the Bank plan to prepare jointly on trade issues, with particular emphasis on the interlinkages between the policies of

the industrial and developing countries. I would like to stress the role of the Fund with respect to trade policy, and a substantial study on the relationship between regional trade integration, international capital flows, and the workings of the international exchange rate system might be very interesting.

I am pleased to see that a Board meeting is scheduled for February 1992 on the basis of a new paper on the role of the SDR. This paper should take into account developments occurring in every part of the world, including the effective or potential return to convertibility of previously controlled planned economies and the subsequent need for an increase in their international reserves, along the lines of the suggestion made by the Japanese Government.

Regarding policies on the use of Fund resources and the design of Fund policy advice, I support the idea of issuing a paper on the expansion of eligibility for the enhanced structural adjustment facility (ESAF), and I am ready to discuss--as soon as possible and by the end of the year--the modalities and decisions needed to implement such an expansion.

I understand that a postponement of the review of the CCFF has been suggested, and that the staff will prepare a paper updating the experience under the facility. I can go along with this proposal.

Concerning research topics, I think that the Board should have the opportunity to discuss the paper prepared by the staff on issues in energy pricing policies in the coming months.

I welcome the seminar discussion on burden sharing, as well as on the rate of charge and the cost of Fund financing. I would suggest that we not dwell on the mechanisms of burden sharing--which are well known--but rather that we devote sufficient time to discussing the rate of charge and the cost of Fund financing.

I am pleased to see that the new paper concerning the proposed statute for an administrative tribunal is going to be issued before the end of the year. This issue has now been under consideration for the past two or three years, and the staff attaches particular importance to it. We should therefore discuss this matter as soon as possible in order to reach a decision.

Mr. Goos stated that he could endorse the thrust of the proposed work program, even though its implementation would confront the Fund with unprecedented, but unavoidable, challenges. He was particularly concerned about the additional work load facing the already heavily overburdened

staff, and the well-known, potentially detrimental consequences for the Fund of the effects of such a work load on the quality of the staff's work. He therefore hoped that in the forthcoming budget discussion a satisfactory solution to that problem would be found, based on the appropriate prioritization of the Fund's future work. Moreover, additions to the existing manpower were probably necessary and unavoidable.

In the meantime, Mr. Goos continued, he wondered whether the Managing Director could outline the general direction of his thinking concerning future staffing requirements. Also, he would appreciate having more specific information on the interim solution to meet the immediate personnel needs for the work related to the U.S.S.R. and other applicants, including information on the number of staff to be mobilized for those purposes from the various sources indicated in the statement on the work program. In addressing that issue, it needed to be recognized that the Fund was being faced with an exceptional surge in the demand for Fund resources resulting from the immense preparatory work for technical assistance and problem identification. Once that work was completed, he would assume that the demand for staff resources would decline to more usual levels--the levels generally associated with work in program countries. It would therefore appear advisable to meet the peak demand on the Fund's resources in the immediate future predominantly through nonpermanent additions to the staff. That was particularly important because experience showed that once the size of a bureaucracy was increased, it became extremely difficult to downsize it to less demanding work requirements. Moreover, the relatively small size of the Fund was one of its major assets and explained in large measure its effectiveness, which should be preserved.

That being said, he wished to commend the Managing Director for the work program, in particular that part related to the U.S.S.R., which he had found to be appropriately comprehensive and ambitious, while at the same time providing sufficient flexibility to respond effectively to the evolving constitutional process in that country, Mr. Goos commented. In that context, his authorities had been particularly pleased to note the efforts to establish working relationships on the republican, as well as on the union, level. The Fund should stand ready to open separate resident representative offices in the republics if they were requested by the local governments.

He would encourage the Managing Director to expedite, to the extent possible, the production and circulation of the papers related to the transformation of the centrally planned economies, Mr. Goos continued. The studies on the appropriate exchange rate arrangements and the role of financial markets and intermediation in those economies were particularly relevant. Given the importance of those studies--that on financial markets, in particular--the proposal that the Board discuss those issues not before March 1992 had surprised him; such a scheduling appeared rather late.

He was confident that the Managing Director's proposals regarding country-related activities would meet the critical requirements that the changes in surveillance procedures would be only temporary, and that they would not be allowed to compromise for any extended period the Fund's responsibility in the area of surveillance, Mr. Goos observed. On the work related to the quota increase, it might be interesting to hear from Mr. Dawson the position of his Government regarding the quota increase and the proposed Third Amendment of the Fund's Articles of Agreement.

He broadly endorsed the Managing Director's proposals regarding the remaining areas of the work program, although he saw scope for further prioritization, Mr. Goos continued. For example, he doubted the usefulness of having the Board engage in such esoteric and nonoperational issues as equilibrium exchange rates. Other topics of low priority included the energy pricing study and the study on the economic implications of unproductive public expenditures. The latter issue had already been covered sufficiently in a recent Board meeting (EBM/91/138, 10/2/91); the conclusion that unproductive expenditures should be reduced was more or less clear.

He attached great importance to the budgetary outlook discussion scheduled for December 11, 1991, Mr. Goos concluded. He would strongly encourage the Secretary to aim at the finalization of Board consideration of all topics relevant for the spring meetings of the Interim and Development Committees by April 10, 1992, so as to provide the authorities with sufficient time to prepare for the meetings. That would be facilitated if the existing rules on the circulation periods were maintained strictly for the relevant Interim Committee documents, including in particular the WEO and its supplementary papers. It would also be facilitated if the beginning of April could be kept free of policy items unrelated to the Interim and Development Committee meetings or to the budget for financial year 1993.

The Chairman commented that he supported Mr. Goos's suggestion of imposing a deadline of April 10, 1992 for the Board's consideration of papers for the spring 1992 meetings of the Interim and Development Committees. He also agreed that the Fund should attempt to meet the requirements of its involvement in the U.S.S.R. in a way that preserved its leanness.

Mr. Finaish made the following statement:

The Managing Director's statements on the work program for the next six months and on the work related to the U.S.S.R. and its republics should dispel any illusions that the Fund can return any time soon to business as usual. The task of responding to the technical assistance needs of a transformation on the scale envisaged in the U.S.S.R. is truly enormous. The Fund is being thrust into a task of unprecedented complexity, particularly given the political and constitutional uncertainties that still prevail. This will inevitably entail sacrifices on the part of the

membership which we hope will be temporary and equitably shared, and which the future will, hopefully, prove to have been worthwhile.

In his statement, the Managing Director set out the broad outlines of a strategy for responding to the urgent needs of the U.S.S.R. We agree that the hiring of additional staff is unavoidable. However, in the short term, a disproportionate burden is likely to be placed on the other two elements of the strategy--the readjustment of activities and the redeployment of existing resources. It is important therefore to explore ways of mitigating this burden by expediting the process of recruiting and, perhaps more importantly, assimilating new staff. The possibility of seeking staff, particularly macroeconomists, from other multilateral institutions mentioned in the Managing Director's statement of November 6 on the U.S.S.R. may prove somewhat difficult because they are going to be subject to the same pressures to help out as is the Fund itself. In the case of the World Bank, however, I wonder whether the current and prospective surge in the work load of both institutions does not warrant a fresh look into possible improvements in the way staff resources are being utilized. Obviously, the question of collaboration is an old one, and we are well aware of the guidelines on collaboration which were carefully--and painfully--negotiated a few years ago. But in a way, the issue now is different. It is not any more a question of defining primary responsibilities in order to avoid friction, but rather, the ability to deal with a real and urgent problem of a surge in the demand for staff resources. I do not know exactly how many macroeconomists are currently employed in the Bank, but my impression is that the number is large. It is also my impression that, by and large, the work that these macroeconomists are doing in the Bank is not very different from that done by their counterparts in the Fund. If this is so, one wonders whether it would not be useful for the two managements to jointly explore ways of maximizing the effectiveness of this pool of staff resources. If such a joint effort is judged to be feasible, one can think of a variety of mechanisms ranging from joint missions to a more systematic secondment arrangement.

Staff resources will, however, remain overstretched during the transitional period, and will inevitably force us to look again at ideas which, on a number of previous occasions, the Board had found unacceptable for realizing budgetary savings. So, we have to be exceedingly cautious in deciding where to economize. The Managing Director has mentioned the possibility of postponing some Article IV consultations and moving some countries to the bicyclic procedure. Until we saw the Managing Director's statement of today, our expectation was that this will apply most

directly to countries in the European Department. Since we saw the Managing Director's specific proposal only this morning, I am not yet in a position to react to it in specific terms, but let me stress that every effort should be made to accommodate the wishes of member country authorities, particularly those that find the consultation process itself to be a valuable form of technical assistance. As regards the provision of regular technical assistance, it is important to insure that any unavoidable rationing will be done in a transparent manner and on the basis of priorities of which the Board is fully informed. While the needs of program countries obviously warrant priority, it is important not to neglect other countries which are not seeking Fund financial assistance, but which consider Fund technical assistance to be a primary benefit of membership. Many countries which have not used the Fund's resources and are not expected to do so in the foreseeable future are already on the bicyclic procedure. One of the few links between them and the institution is some form of technical assistance. In cases such as these, the importance of not cutting back too sharply the kind of technical assistance the Fund can provide should be kept in mind, notwithstanding the need to focus such assistance on other areas.

Regarding the financial costs of the Fund involvement in the provision of services to the U.S.S.R., there can be little disagreement that the process of transformation currently underway is of systemic and global importance. It stands to reason, however, that the cost of Fund involvement should be defrayed by contributions from larger members by virtue of their systemic importance and ability to pay, although on the broader level, a wide range of countries are providing assistance to the U.S.S.R., including some in our region. As far as the Fund is concerned, it is difficult to think of a mechanism less suited to the principle of equitable cost sharing than adding the incremental cost to Fund charges. In the absence of suitable arrangements for sharing that cost, consideration could be given to lowering the net reserve target.

We will have an opportunity to discuss in detail ways by which further efficiency gains may be realized, both in our discussion of the budgetary outlook and during the retreat. Insofar as the present work program is concerned, let me say that we could generally realize some savings by making our regular policy reviews more pointed, and in some instances, confined to operational issues. For example, I see no reason why the next SAF/ESAF review would need to follow in the footsteps of its predecessors in depth and coverage. I say this because the SAF has already been reviewed four times and the ESAF three times, and we will have completed--hopefully long before the next review is due--the work on the important issue of eligibility. We can go along with the Managing Director's proposal to postpone the review of the

CCFF, but only with some reluctance, given the generally recognized need for a fundamental reassessment of the contingency element of the facility. Regarding the research program, we see merit, in the present circumstances, in trying to achieve a greater operational orientation in that program.

We are in favor of an early consideration by the Board of the paper on issues in energy pricing policies. The frequency with which matters related to this issue are raised in the Board warrants such an early consideration. Like Mr. Kafka, I agree that an early consideration by the Board of the next regular election of Executive Directors may be desirable.

Mr. Posthumus made the following statement:

Before commenting on the work program itself, I would like to emphasize the importance of a timely distribution of staff papers to facilitate a thorough preparation of our meetings. Policy papers should be issued at least three weeks in advance of the Board meeting, as was the case before the recent developments in the Middle East.

Two words are missing from the work program: "international monetary system" (IMS) and "surveillance." The Economist, in its special issue on the Fund, would find its central thesis vindicated if it could read this work program. Elements of both IMS and surveillance are in the program, certainly, but an avalanche of work should not prevent us from steadily following the course of work on these issues.

I fully support the proposed work program regarding the U.S.S.R. and other applicants for Fund membership, although I share the concerns and misgivings about the effects of this program on many other members of the institution. Yet, responding to the developments in Eastern Europe and the U.S.S.R. is the way to go for a global institution.

Under a worst-case scenario, the total number of new applicants for membership may rise to 20. It is perhaps time to become somewhat more cautious in allocating quotas to new members in view of our record in that regard of the last few years.

Last week, we briefly discussed the consequences of work on the U.S.S.R. for our other Article IV consultation activities--in fact, for our surveillance role. It is clearly necessary to make room for work on the U.S.S.R., but we should realize that this is first of all a matter of freeing staff resources for doing the

work on the U.S.S.R., and not of freeing Board time for this purpose. The bicyclic consultation cycles hardly free staff resources.

Last year, we had an intensive discussion on surveillance, and on the role of bicyclic consultation cycles, and we did not reach a consensus. Now, a large number of countries will be placed on a bicyclic or two-year consultation cycle, and--an essential divergence from past procedure--involuntarily. I propose that Directors should have the opportunity to consult with their authorities before we come to any conclusions regarding the Managing Director's statement on temporary changes in Article IV consultation cycles--which was received and dated today. Members with Fund-supported programs are exempted, even though these countries are already discussed by the Board at least two times per year. Thus, smaller industrial countries and some nonprogram developing countries will fade away from the Board's agenda. I doubt whether this is a good approach for the Fund--which up to now has been universal--to begin in a formal way to treat large and small members so differently. I would like to see a quantitative assessment of the expected resources involved in the assistance to the U.S.S.R. and its republics, including staff resources.

I also would like to know whether the Research Department should not be requested to provide more staff for Article IV consultation missions temporarily. Furthermore, I request that the Board decide on the consultation process again within one year. In addition, the requested flexibility should not lead to the permanent different treatment of members; after all, we know that nothing is as permanent as a temporary arrangement.

Regarding issues in the context of the quota increase, I do not understand what is implied by the statement that a broad understanding has already been reached that maximum potential access should be maintained for an interim period following the quota increase. The increase in quotas that was decided is 50 percent, and the enlarged access policy was a temporary policy. We now have to design an access policy based on the new size of the Fund as agreed with its members. This is not a matter of modalities and technical issues.

I have no remarks to make on the proposed work program for the WEO, debt, and trade issues.

There are a few important issues under the heading systemic issues and the role of the SDR, essentially relating to the functioning of the IMS. I support the work program. I wonder what a "market-based fiscal policy discipline" is. Of particular

importance is the forthcoming completion of the work of the Working Party on the Measurement of International Capital Flows. I have one further suggestion. A paper is planned on the exchange arrangements of formerly centrally planned economies, and one subject to be discussed is currency unions among constituent republics. This is a major and urgent issue. I suggest that the Managing Director make this issue the subject of a major speech before March 1992. The speech should note that the independence of republics--and we know which republics we are thinking about--does not necessarily mean independent currencies and independent central banks. A currency union leaves room for much political autonomy; in fact, it mainly prevents the kind of autonomy that leads to the creation of republican inflation. I know that some budgetary discipline has to be accepted in such a union as well, but this is an urgent and important message to all those regions, countries, and republics which want to be independent and which think that having their own currencies and central banks is an indispensable part of independence.

I have no observations concerning the work program on the use of Fund resources and the design of Fund policy advice.

At the first Board retreat last year, I proposed that we look again at the Fund's rate of charge and the cost of Fund financing, and I speculated about the desirability of bringing some concessionality into the rate of charge. These subjects are controversial, and I would ask my colleagues to be prepared at least to discuss them with an open mind. I should like to return to this issue during our forthcoming Board retreat. At this time, however, I would like to indicate that the most urgent issue is that of financing the costs of running the institution. We have a diminishing unremunerated capital base, and an unequal burden sharing mechanism. We should at least identify this in order to seek and negotiate solutions later on.

In addition, the size of the present burden sharing of the costs of arrears is partly determined by the answer to the question of the financial strength of our institution. Therefore, in the documentation which the staff will prepare for the seminar to be held in January 1992, attention should be paid to the financial position of the Fund, with regard to developments concerning the arrears problem and the implementation of the rights approach. Perhaps the staff can present several scenarios. In this way, we can judge if the burden sharing mechanism generates sufficient resources to protect our institution and--if not--how we can change it.

I have no remarks to make on the work program for administrative and related matters.

Mr. Fridriksson made the following statement:

As clearly described in the Managing Director's statement and repeated by previous speakers, the period ahead will be an exceedingly challenging one. The demands occasioned by the evolution of the U.S.S.R. make it essential for the Fund to prioritize its work and redeploy staff on an unprecedented scale.

We agree that, in addition to redeployment, the Fund will have to resort to the staffing measures that the Managing Director suggests. In this connection, I would like to ask how effective the recruitment effort has been this year, and to what extent the additional positions approved last spring have been filled. Manpower resources cannot be brought on board immediately, and it will be necessary to reduce selectively other activities of the Fund, including surveillance activities. The countries in my constituency can probably endorse the procedure presented in the statement which the Managing Director circulated this morning. Understandably, they have had little time to reflect on it, but they will all be affected by the proposed changes.

Having said this, I want to emphasize that the modifications must not be looked on as a lasting change in the surveillance procedures. They should rather be viewed as a concerted effort by the membership to deal with unexpected and sudden developments. As the Managing Director stated, surveillance remains central to the Fund's operations, and I would add that it must be conducted in an evenhanded manner. I therefore think that it is essential that we examine the surveillance practices in a few months to take stock and to assure ourselves that a group of countries comprising roughly one third of the membership will not be sidelined for an extended period from what is still, in principle at least, a policy based on annual consultations, and one being adhered to for the other two thirds of the membership. I welcome the emphasis in the statement the Managing Director circulated this morning on the temporary character of the proposed changes in Article IV consultation cycles, but I share the concerns expressed by Mr. Posthumus in that regard.

Given the likely demands on the Fund in the years ahead, we cannot exclude the possibility of having at some stage to consider a possible general extension of the consultation cycle, or other modifications of the consultation procedures, relating, for example, to the staffing and duration of missions. This chair would like to support the Managing Director's suggestion that, during the period of reduced traditional consultation activity, the Fund consider scheduling brief staff visits to affected countries to maintain direct contact, to keep abreast of developments,

and to provide policy advice as appropriate, particularly for countries facing emerging imbalances.

As a related issue, I am tempted to ask how many staff members will become available for redeployment as a result of the expected changes in consultation activity, and I suggest that we assess at an early stage the potential need for added staff resources in the medium term.

There seems to be no alternative to the general approach to the U.S.S.R. and its individual republics that the Managing Director outlined at the Board meeting a week ago. The Fund's response to the rapidly unfolding events has been prompt and comprehensive in circumstances of great uncertainty. Given this uncertainty, it is difficult to map precise plans for the U.S.S.R.-related activity, but nevertheless, it needs to be conducted in as organized a manner as possible. I welcome the Managing Director's plans to hold regular and frequent meetings with Executive Directors to keep them informed of developments.

I would like to emphasize that the rapidly increasing activity of the Fund in Central and Eastern Europe and in the region of the U.S.S.R. must not transpire at the expense of its involvement in, or emphasis on, developing countries, although some are obviously going to be temporarily affected. Above all, the Fund must be mindful of its role as the central monetary institution in an emerging universal monetary system. It is, therefore, important that the envisaged consideration of systemic and international monetary issues be kept in the work program in the coming period. They require attention, particularly in a rapidly changing world.

As in the past, we place strong emphasis on the World Economic Outlook exercise, and we agree with the present setup and the suggested topics to be highlighted in the forthcoming one. Developments in Eastern Europe and in the U.S.S.R., and their subsequent effects on other countries, will have to be addressed.

Consideration of the question of financing assurances in Fund-supported programs could be a part of the regular discussion on the management of the debt situation, and of our review of Fund-supported programs in general.

My authorities believe that it is necessary to maintain flexibility in the research activities of the Fund. It is entirely possible that it will be necessary in the coming period to focus on unexpected developments in the economies in transition, and I would like to echo the question raised by

Mr. Posthumus about the possibility of making greater use of Research Department staff on regular Article IV consultation missions.

On other issues covered in the Managing Director's statement, we have always attached great importance to promptly concluding the quota review. We are disappointed at the indications that the quota increase may not become effective at the turn of the year. Like Mr. Goos, I would welcome an indication from Mr. Dawson on when the United States might be in a position to consent to its quota increase.

The review of the CCFF scheduled for July 1992 may be postponed for some time, and the promised papers updating experience with the facility can no doubt provide guidance on a suitable timing for our next review.

It would be interesting to undertake a study of the facility structure of the Fund and possible modifications. Staff resources do not allow for such an exercise at this time, but we should turn our attention to it as soon as circumstances permit.

On the administrative and related matters, we look forward to the discussion on the budgetary outlook in the medium term, which will take on added importance in view of recent developments.

I welcome the planned circulation of a further paper on an Administrative Tribunal before the end of the year. Like some previous speakers, I also wish to emphasize the importance of adhering to the rules concerning the circulation period of Board papers, and I agree with those who have suggested that we look at the rules for the 1992 regular election of Executive Directors at an early date.

I endorse the thrust of the Managing Director's statement on the work program.

Mr. Peretz made the following statement:

The Managing Director's statement vividly illustrates the huge challenges facing the Fund over the next few months. As others have said, this makes setting priorities in our work even more important than usual. We have to look very carefully for areas of work that are not of the highest priority and that can therefore be temporarily delayed.

Work on the U.S.S.R.--or perhaps I should say work on the economy of the territory of the former U.S.S.R.--is of the very

highest importance not only for the peoples of that country, but also for all members of the Fund. The work is already having an impact on all parts of the Fund's work. I welcome the speed with which the Fund has moved to provide the benefits of its analytical advice and capabilities. In particular, I welcome the priority now being given to assistance to the individual republics, as opposed to the center. This is fully consistent with the terms of the Special Association agreement. I agree with Mr. Goos's remarks about the need to be ready to open resident representative offices in constituent republics if that seems appropriate. Indeed, the Fund should be ready to send missions led by senior staff to constituent republics, if that seems sensible. I fully agree with the Managing Director's comments about the fundamental importance of evaluating basic data for the U.S.S.R. This is something which needs to be done at the republic level so far as that is practicable. As the Managing Director points out, these activities place a very significant extra burden on the Fund and its staff. I fully support the Managing Director's efforts to minimize this, so far as possible, through redeployment, through use of consultants, and through inward secondments.

Like Mr. Posthumus and Mr. Fridriksson, I would stress the scope for temporary redeployment within the Fund, particularly perhaps from departments like the Research Department, where the work is important, but not necessarily of such urgency as what the Fund is facing in the U.S.S.R.. I also mentioned on another occasion the scope for use of inward secondments of officials from member countries. My own country is very ready to help with that.

We will be discussing the administrative budget next month. Of course, it will not be surprising if all this were to have some budgetary implication, but I also agree with the remarks of Mr. Goos and the Managing Director about the wisdom of meeting much of the surge in demand for staff resources for technical assistance in a temporary way insofar as possible. I, too, see the merits of keeping the Fund a relatively small and tightly-staffed organization for the future.

Given the scope of the problems in the U.S.S.R., the different institutions should try harder than usual to concentrate their work in their particular areas of comparative advantage. This is not the time for unnecessary duplication. There is more than enough work for everybody to do. In this respect, I was heartened to be told on Monday by the President of the World Bank that the World Bank had declined to give the authorities of the U.S.S.R. advice on tax policy, telling them correctly that this was a matter on which the Fund should provide advice. This is an excellent precedent, and I hope that the Fund, too, will not be slow to refer the authorities of the U.S.S.R. to other

international financial institutions when they ask for advice on a matter which is not one within the Fund's central area of responsibility. I also have a lot of sympathy for Mr. Finaish's remarks about the possible scope for joint planning and use--and perhaps secondments--of macroeconomists in the World Bank and the Fund.

I agree with the proposals to deal simultaneously with the membership applications from the three Baltic states, and the proposal to streamline the procedures for the membership applications of the Marshall Islands and Micronesia.

Turning to country activities, despite the extraordinary pressure on the Fund's resources, we must do all we can to maintain the highest standards in all areas of the Fund's work. I would like to stress the crucial importance of deciding on priorities. We will have to drop or scale down some activities, but we have to choose the right ones to drop or scale down. I agree broadly with the rephrasing, on a temporary basis, of some of the Fund's activities as set out in the Managing Director's statement circulated this morning. The main saving of staff time, of course, as others pointed out, will result not from the movement of countries to the bicyclic procedure, but rather from the shift of bicyclic countries and those on the 18-month cycle onto the 24-month cycle. I agree that this will need to be done on a consistent basis in order to release the necessary staff resources, but this is not of course without risks. We will now have no automatic mechanism, such as that of the interim Article IV consultation, to alert us to a deterioration in the circumstances of a member country which was previously on the bicyclic procedure. I note in particular the experience we had with the Solomon Islands, to which the Managing Director referred in his statement (EBM/91/148, 11/6/91). The new policy, therefore, will have to be applied sensibly, and I would suggest that a close look be taken of all countries which are currently on the bicyclic procedure to ensure that the risks of missing some important developments are minimized before they are moved en bloc to the 24-month cycle. I also agree with others that we might usefully review how this temporary rephrasing is working, perhaps in a year's time.

Saving the Board's time is in a sense less important than saving the staff's time in the current circumstances. Nevertheless, there are a number of straightforward steps which would improve the focus and quality of our own discussions in the Board. We must not give up on the lead speaker system, even though experience with it has been mixed. I also continue to believe that shorter, better focused staff papers would not only help us

but, after perhaps some modest setup costs, would ease the burden on staff as well. I hope that we can return to this issue at the retreat.

Like Mr. Goos and others, I would be interested in anything Mr. Dawson has to say on the subject of the quota increase.

I look forward to the planned discussion of guidelines on the allocation of currencies under the operational budget. When the floor for Fund holdings of a member's currency was increased earlier this year to two thirds of the average for members, it was on the understanding that this was a temporary and reversible move. Any discussion of the burden on individual members arising from the operational budget will of course need to take account of all means by which members contribute to financing the Fund.

The WEO discussions suffer from the proliferation of background papers--interesting as they are--which accompany the main report. They are valuable, but it is difficult to do full justice to all the issues in the WEO discussion. For this reason, I wonder whether some of the items listed in the Managing Director's statement might not be better dealt with in a seminar format on some other occasion.

This also applies to the proposed staff paper on the outcome of the Uruguay Round. This will be of considerable value and should clearly be linked to the WEO, at least in the published version. As we agreed on Monday (EBM/91/151 and EBM/91/152, 11/11/91), the outcome of the Round may have implications for surveillance and programs, so this is a subject to which we will need to return.

I have no difficulty with the work proposed under the heading of systemic issues, but any early paper on the role of the SDR would focus most usefully on the role of the SDR as a reserve asset and on ways in which its monetary characteristics might be enhanced. I note the proposal for a paper on the determinants of equilibrium exchange rates, an issue which is in a way essential to our surveillance responsibilities and to program design. The discussion we had some months ago on the Fund's policy advice in the area of exchange rates (Seminars 90/7 and 90/8, 11/21/90) was, I thought, particularly successful, partly because the Research Department produced a clear paper which was a synthesis of a great deal of less accessible technical work which had been done over a long period. I found this approach very helpful and hope it will be repeated this time.

Regarding Fund resources and the design of policy advice, I note the Managing Director's comments about the possible expansion

of ESAF eligibility. My authorities made it clear that they support some expansion of the list of countries eligible for the ESAF, provided that does not disadvantage presently eligible countries or the poorest newly eligible countries.

Like others, I can support the intention to postpone the review of the CCFF and the suggestion that we confine our scrutiny next year to a purely factual account of the operation of this facility. We will, however, need to return our attention to the improvement of this very complex and imperfect instrument at some point in the future and, I would say, as soon as practicable.

I also note the agenda for our ongoing scrutiny of the design of Fund policy advice, which seems to be appropriate. I look forward to reading in due course the proposed paper on the important subject of quasi-fiscal operations of the central banks. I wonder, however, whether the whole list of papers in this paragraph on the design of Fund policy advice might not be given lower priority in present circumstances, not because they are not valuable in their own right, but because we have some pressure on resources and we must look for things that can be given a somewhat lower priority.

On other operational matters, I have one comment on the proposed seminar discussion on the broad principles of burden sharing and the Fund's rate of charge, which others have mentioned. While ready to take part in a seminar on this issue, I would not afford it a very high priority, mainly because I am far from certain that it will achieve much. The present burden sharing arrangements are imperfect, but they represent a careful and delicate compromise, and I wonder whether there is any great purpose in tinkering with it. If we do have a seminar, I must insist that full account be taken of all the ways in which members contribute to the Fund's finances. In the present circumstances, I wonder whether the topic should be given top priority, given the rather small chances that any progress will be made.

With respect to administrative and related matters, the proposed paper on the budgetary outlook will obviously be important, given the huge work pressures of the staff. A clear perspective on the budget and a realistic set of priorities is therefore more important than ever. This chair was one of those which originally pressed for this work, and I am convinced that we were right to do so. However, I am aware of a good deal of skepticism on the part of the staff and the institution concerning the amount of statistical reporting they have been asked to do in preparing the budget documents. I do not wish to comment on this; the nature of the information gathering process is a matter best left to management. However, it does make me apprehensive about the

nature of the report the Board will be receiving. I hope that it will be issue based, with clear suggestions for cutting back on some activities in order to release resources for the most urgent tasks, and I hope that we will not be confronted with large amounts of impenetrable data in the main report.

Let me mention two other issues which are not in the Managing Director's statements. First, the issue of the attendance of outsiders at Board meetings has yet to be resolved. We were promised a paper on this after the Annual Meetings, and I hope that this has not been lost sight of. Second, there is the issue of staff reporting on programs which are off track, and where it is impossible to bring a review to the Board. You will recall the disquiet I expressed in a recent case of particular interest to my authorities, but there have been others. What we have argued for is a simple arrangement under which the staff reports orally and very briefly on developments in such countries at the time when the review would have come to the Board had the program been on track. I do not want to introduce any new procedure which would be a burden on the staff, but the present arrangements in this respect are unsatisfactory, and I continue to think that there is a strong case for improving them.

Mr. Kafka commented that he was not sure whether it was more important to save the staff's time than the Board's time.

Mr. Prader made the following statement:

This chair can accept the work program and the priorities outlined in it. I can therefore focus my remarks on only a few issues.

The work program is above all an expression of the Fund's flexibility and willingness to take on new and challenging tasks, even though it might affect the institution's character. While we find this an adequate and responsible approach, we see the need for special care to avoid the risk that certain basic and indispensable functions of the Fund which must now be temporarily reduced in favor of this work program end up getting lost in the process. I share the concerns of Mr. Fridriksson and Mr. Posthumus. The Managing Director's statement on temporary changes in Article IV consultation cycles gives reassurance on this point by setting a timetable for the eventual return to normal surveillance procedures, and our chair is inclined to take a positive view of the proposal submitted to us today. To ensure that the deadline for returning to normal procedures can be met, the management will have to start hiring additional staff at an early stage, the moment it becomes clear that the Fund's

involvement in the U.S.S.R. will be longer and more extensive than is consistent with this timetable. The idea of having a lean organization is very attractive, but it should not be at the expense of the universal character of the Fund. We also must insist that at a minimum, contact with the national authorities will be maintained in the interim by means of regular staff visits, and our acceptance of the proposal made in the Managing Director's statement is therefore conditional on the existence of a clear understanding on both these points.

The question of how to deal with the U.S.S.R. and/or its republics is certainly the major challenge in the Fund's history. We have already had occasion, during last week's discussion, to present some of our constituency's views on the implications of this new focus of Fund work. Suffice it to say today that we support the Fund's approach, but we would be concerned if a reorientation of the Fund had to be accomplished at the expense of the Central and Eastern European region. One way management can indicate the seriousness of its reassurances to the countries of the region would be to continue, in the format of regional reviews and not just in connection with individual program reviews, our past frank and useful discussions on the progress of reform and adjustment in the former centrally planned economies of Central and Eastern Europe. The announced papers on exchange arrangements of formerly centrally planned economies and the role of financial markets and intermediation in transforming centrally planned economies could form part of such a regional review. The need for continued scrutiny of the region as a whole is demonstrated by the derailment of the program which Poland had started with so much enthusiasm. This failure indicates that the economic and political transformation of the region is not only far from complete, but also has in fact run into major difficulties. There is certainly no room for complacency.

While the Fund can be proud to be assigned, among the international organizations, a leading role in the provision of policy advice, analysis, and technical assistance, it is also clear that in the case of the U.S.S.R. the Fund's mandate is ambivalent. The Fund's mission will prove impossible if clear terms of reference for its work and unqualified backing--in particular from the major industrial countries--are lacking. We should therefore not content ourselves with asking the Fund's management for a clear account of the guiding principles of its recommendations, but we should also inquire about the underlying policy guidelines of the major industrial countries with respect to the U.S.S.R. In any case, the outcome of the Fund's involvement is not the responsibility of the Fund alone, but is likewise the responsibility of the countries that commissioned the U.S.S.R. project.

We are certainly only beginning to understand the functioning of the U.S.S.R. and the international implications of that functioning. We may have to go through a learning process similar to the one we encountered in the case of the U.S.S.R.'s former Eastern European satellite countries. One thing we might learn from this process is that much of the economic and political disarray which characterizes this huge country is not exclusively connected with the system of central economic planning, but that it historically antedated the introduction of planning and was merely compounded recently by the collapse of the planning system during the years of hesitant and unsuccessful market reforms connected with "perestroika." In other words, there definitely exists a need for specific studies of the U.S.S.R., as mentioned in the Managing Director's statement, because the Fund is about to embark on a nearly impossible mission.

Concerning the other matters addressed in the work program, this chair attaches great importance to systemic issues, in particular to the role of the SDR and the continued study of the international capital markets.

We are also looking forward to the planned review of the guidelines on the allocation of currencies under the operational budget. We hope that this review will enable the staff to produce substantive results in the form of a more satisfactory compromise for including members in the operational budget. In this connection, it will be interesting to see the results of the staff's examination of the role of reserves as a measure of members' relative external financial strength.

We are happy to see on the Board's agenda a paper on unproductive expenditures, a topic on which we had already requested a Board discussion during our debate on military expenditures. Although Mr. Goos is probably correct in saying that the outcome of these debates will be predictable, we may find in them the occasion for a lively and interesting philosophical discussion.

Mr. Evans made the following statement:

The work program proposed for the period immediately ahead is a demanding one, as always, although perhaps even more so on this occasion, as the program now explicitly acknowledges the demands arising from the Fund's acceptance of obligations to various non-member countries and entities. We welcome this acknowledgment, and the forthright way in which the question of setting priorities has been addressed in the statements.

It is clear enough that considerable staff resources will need to be devoted to intending new Fund members, including the U.S.S.R. and to its republics. The difficulty lies in judging how extensive that effort should be. It is not necessary for us to pursue that matter to finality today; it is more properly a matter for the forthcoming budget discussions (EBM/91/166 and EBM/91/167, 12/11/91), but we should avoid giving signals today which might pre-empt those processes. While the Managing Director's statements do not provide any precision on the resource transfers in mind, my understanding of what is implied suggests to me that we are contemplating, in the short term, too large a program in the U.S.S.R. and too large a cutback in country-related activities and services to our members.

Looking at the first side of that--the proposed program in the U.S.S.R.--I agree that the Fund must play a key role, in keeping with its responsibilities. But that does not require it to play the lead role in all of the areas proposed simply because it has staff with the necessary expertise available; that expertise is not freely available. Already, Fund missions to program countries--not Article IV consultation missions, but program missions--are suffering from staff with technical expertise being redirected to European duties. More fundamentally, there is a question as to whether the U.S.S.R. and its republics can use effectively either the advice or the technical assistance being proffered from so many quarters. The opinion of many who have visited the country recently is that they cannot--a view recently echoed by the Fund's resident representative in Moscow, and reiterated by the Managing Director this morning. It is perhaps unavoidable that there will be some duplication and overlap among the agencies offering assistance to the U.S.S.R., but that does not require the Fund to waste staff resources at this early stage.

Looking at the issue of where the burden of the cost of the U.S.S.R. program will be borne--namely, by those Fund members whose services will be reduced--I believe that it will be necessary to proceed on a case-by-case basis. Although some general principles will be useful as guidance in this process, scope must be left for individual countries to be consulted on their preference. It is unavoidable that some reduction in surveillance must occur, but we should strive to minimize any longer term fallout from that. The Managing Director has circulated a proposal which has generally been commented on favorably as meeting the requirements of a cutback in surveillance. In your statement, you make a specific mention of the Solomon Islands. When the Board considered this case just last week (EBM/91/148, 11/6/91), it concluded by recommending to the Solomon Islands authorities that they should adopt a program that can be supported by the Fund. Yet, here we are suggesting that it would be put on the 24-month cycle.

That clearly is not consistent, and we really should be putting it on the standard cycle. In the case of New Zealand, and in the light of some unsatisfactory aspects of the latest Article IV consultation with that country, the New Zealand authorities were promised a comprehensive Article IV consultation in the next 12 months. That also cannot be shifted to a 24-month cycle. Australia, however, could be shifted to a 24-month cycle.

These individual cases need to be taken up before we finalize the program. I believe that it would be very dangerous--indeed, naive--to proceed on the basis that we are dealing with a temporary problem. The problems to be confronted in the U.S.S.R. are not temporary and will not be solved in the short term. We are looking at a very long term and very extensive involvement there. This, I believe, is at least acknowledged in the other document circulated this morning, which sets out the proposal for an additional four divisions in the European Department and the related proposal to promote 38 staff members at the division chief level. These are very big changes; they will not be temporary ones. And I believe that we would be mistaken to approach this whole process on that basis.

Going beyond country-related matters, there remains a need to redirect resources to the extent possible. In that regard, we would place a low priority on all of the items listed under systemic issues.

It is true that the Interim Committee in April 1991 asked that the role of the SDR be kept under review. That, however, was before the current plans for the U.S.S.R. were revealed. I think that it is unlikely that the Committee would wish this issue to be pursued, as is now planned, at the expense of surveillance. I believe that it would be preferable, in the changed circumstances, if the Managing Director were to continue, as in the past, to exercise his judgment on this issue, and to determine that it would not be fruitful to pursue the issue further at this stage.

All of the other items listed in the systemic issues section could readily be postponed, assuming that the staff resources so released can be used otherwise. I would note, in particular, that the papers on developments in international capital markets are highly staff intensive but have minimal operational significance.

The Board continues to be hampered in its ability to reach judgments in the area of systemic issues by the absence of the long-promised research work program.

One topic not mentioned in the Managing Director's statement is the Independent Evaluation Unit. The Managing Director

mentioned some time ago the work that the Special Advisor on that subject was doing, and I would be interested in knowing where it stands at present.

I would ask that, in the context of the review of country-related activities, a concerted effort now be made to deal with the bunching of Board reviews in the period leading up to the Interim Committee meetings. This is a perennial problem, but we now have the opportunity to deal with it, given the intention to reorganize the Article IV consultation cycles on a grand scale. The reorganization of country-related activities provides the ideal opportunity of ensuring that, over time and other than in exceptional circumstances, no country matters are brought to the Board in the months of April and September. We should attempt to shift Board consideration of Article IV consultations out of the month leading up to April 10, 1992; the same could be done on a case-by-case basis for program reviews and reviews of arrears cases.

Mr. Fernando made the following statement:

In our work program that followed last year's Annual Meeting, we gave the highest priority to formulating our response to recent developments in the Middle East. The circumstances then fully justified this. Similarly, the priority attached to work related to the U.S.S.R. in the Managing Director's current proposals are well justified by the recent developments in that region; justified not merely by reason of the magnitudes involved, but, more importantly, because the issues and problems will spill over their borders.

It is accepted that the effective transformation of the economic structures of the U.S.S.R. requires technical assistance up front. The needs of the U.S.S.R. and Eastern Europe are immediate. But given a supply situation with existing commitments to members pursuing Fund-supported adjustment programs, a shortage is apparent. Thus, we would accord the highest priority to maximizing the efficiency of resource use in this area.

There are many countries and many institutions that stand ready to provide technical assistance in diverse aspects related to the transformation of centrally planned economies. I am not about to say that we should avoid a duplication of effort, but we should not leave to others, by design or default, the primary responsibility of tendering advice on areas that are central to the mandate of the Fund. I need not elaborate on this aspect, as our concern has been addressed in the Managing Director's earlier remarks on collaboration among the several institutions. Such

understandings--and we would like to know a bit more--would facilitate not just the question of allocation according to comparative advantage, but the question of sequencing of advice. While it is open for the U.S.S.R. to receive advice from a variety of foreign sources, we hope that under the terms of association the U.S.S.R. would provide all information regarding the nature, scope, and content of its contacts with other agencies. It should be impressed on the authorities that meeting their needs means that much less for others.

Our involvement would relate to advice on policy reform and review of the economy. However, we have to face uncertainty as regards the constitutional status of the U.S.S.R. It is our expectation that priority will be given to identification of those aspects of economic performance and policy analysis that are least affected by the constitutional outcome. We agree that at this point in time, the staff should intensify its work on gathering and evaluating basic data.

We attach great importance to the missions undertaken by the Statistics Department and the IMF Institute. Once the training needs and the type of institution that is best suited to providing the training are identified, the information should be shared among a wider circle of concerned agencies, so that ample opportunity is given for each agency to pick up parcels in keeping with their relative strengths. The focus on short-term training, assignments, and consultancies should not obscure the need to build up a solid manpower base to sustain the adjustment and build upon the initial efforts. This is an area in which linkages could be established between the U.S.S.R. and other centers of learning and universities in member countries. The offer from Austria is thus most welcome.

The work program contains a proposal to delay certain technical assistance assignments to other regions. This is an inevitable option we need to exercise. The best sources for such an exercise are those countries in which the record of implementation of recommendations of previous technical assistance missions is poor. This proposal should be pursued with great care, to ensure that no room is left to weaken the reform momentum of adjusting countries. In the case of program countries, and indeed in others as well, we have faced the reality of the extended periods required for implementing structural measures. In the case of program countries, exchange market reform and financial sector reform are two areas requiring strong technical support from the Fund for sustained implementation.

In addressing the pressure on staff resources, we recall some recent decisions that tended to increase the work load. At the

SAF/ESAF review, a midyear review of SAF cases was provided for when circumstances warranted. For some post-ESAF cases, enhanced consultation procedures, including designing and monitoring programs, as well as the continuation of the policy framework paper process, were allowed for. More recently, in instances in which a program is off track and purchases are interrupted, the Board required that it be informed in a timely manner so as to permit, where necessary, the Board's input into the subsequent negotiations to bring the program back on track. There were good reasons for these decisions, and we should be mindful of similar possibilities in the future. Thus, we commend the Managing Director's proposals to reset priorities and redeploy staff, and we support his proposals on Article IV consultations. The Managing Director's latest paper elaborating operational implications that we received this morning has pre-empted some of the comments I had in mind. I agree with the plan, and the only thing I wish to add is that, due to the urgency of conserving staff resources--as rightly pointed out by Mr. Posthumus--we could give further thought to shifting some countries that are on the standard cycle straight to the 18- or 24-month cycle, thus bypassing the bicyclic procedure. Any emerging issues could be handled through a supplementary consultation.

At a time when pressure on headquarters staff is increasing, ways should be found for more intensive use of our resident representatives, of which there are many. At a minimum, we hope that possibilities exist for the size of staff missions to be reduced.

On the WEO exercise, we should stand ready to take account of the outcome of the Uruguay Round. If the conclusion of the Round is delayed or worse, still, the outcome is minimal, we may have to elaborate on implications for the world economy, and in particular the external environment facing countries with Fund-supported adjustment programs.

On the SDR, in the context of systemic issues, we should certainly revisit the issue of international liquidity in the light of the moves to convertibility of a number of countries.

On the quota increase, we are closely monitoring our authorities' actions to give effect to the Resolutions so as to meet the year-end deadline. According to the May 1990 communiqué of the Interim Committee, if it appears likely that the Resolutions may not be effective by end-1991, the Committee would consider what steps to take. Revisiting this subject in early December 1991 gives us another month at most. Should the necessity arise, we may need to assess whether we could wait until next spring for

guidance at the regular meeting of the Interim Committee, or whether something should be done more urgently.

On burden sharing, the rate of charge, and the cost of Fund financing, the previous work program proposed that these subjects would be discussed in seminar form soon after the Annual Meeting. We can agree to the proposed timing of January 1992. The likely increase in costs in facilitating the integration of formerly centrally planned economies is offset by benefits to be shared across the entire membership. We should devote attention to a better sharing of costs, and here I echo the views of Mr. Finaish, remembering that the political leadership of the world has called upon the Fund to play a central role. We hope that ways can be found to help the central banks take a broader view of the return to monetary assets held with the Fund over and above the mathematics of the remuneration coefficient. As to what extent burden sharing protects the Fund, I would note that it preserves the income target, but, of course, not the Fund's financial standing. The question of overdues and financial standing is too complex. This warrants treatment separate from the issues of burden sharing and the rate of charge.

Mr. Torres made the following statement:

We are in broad agreement with the work program, and I will therefore make only some brief comments on several of the topics and ask for some clarification of others.

We are well aware of the systemic implications of developments in the U.S.S.R. for the world economy. Therefore, we welcome the emphasis put in the work program on the topic of the U.S.S.R. and other related topics. We concur that the institution needs to react rapidly, and that the staff needs to be prepared, and in many cases to anticipate, the analytical work that needs to be developed to address the issues involved in the transformation of the U.S.S.R.'s economy. The study of the U.S.S.R. prepared by the task force has certainly provided a solid building block. Having said this, however, it is important to evaluate the cost of Fund involvement with the U.S.S.R. and its impact on current member countries under present circumstances of increasing demand from our members, substantial work pressures, and resource constraints. The first assessment derived from the statement by the Managing Director on the work related to the U.S.S.R. and from the work program itself indicates that resources are being absorbed and redirected from many areas: the European Department is undergoing a major transformation, and the resources of the ~~Central Banking Department, the Exchange and Trade Relations Department, the Fiscal Affairs Department, the Statistics~~

Department, and the IMF Institute, which were not redundant to begin with--to say the least--are being diverted to support the U.S.S.R.'s transformation effort.

We share the concerns of others regarding the risk that, because of work pressures on Fund staff, the smaller developing countries will be put back in the queue for technical assistance, IMF Institute courses, program missions, and general Fund attention. In today's work program, these issues are not addressed, and the only explicit mention of the diversion of resources comes from the Managing Director's statement on the U.S.S.R., from which one learns that a number of countries will be placed on the bicyclic procedure. There is also a brief mention that staff will be redeployed from the Research, Treasurer's and other Area Departments, and a recognition that certain technical assignments to other regions will need to be delayed. We are confident that the pending issues and details will be addressed in the forthcoming budget review, at which time any adjustment to the work program will be flexibly considered.

On the topic of the quota increase, it is regrettable that we are approaching the deadline and that there is a growing risk that the Resolution might not become effective. This is indeed a very important topic that needs to be discussed urgently. Along these lines, we would appreciate a note or assessment of the perceived difficulties that are holding up the process. It is useful to revisit last year's work program, in which the Managing Director stated that "it remains my fervent hope that the requirements [for the quota increase] will be achieved by the April 1991 Interim Committee meeting, and I have been encouraged to that effect by positive indications from Governors during the Annual Meetings." The meeting the Managing Director referred to, as well as another one, have already taken place, and in spite of the progress, it is still not clear whether the December 1991 deadline will be met.

Again, in this work program we take the opportunity to look forward to the guidelines on the allocation of currencies under the operational budget, which will include an examination of the role of reserves in measuring members' relative financial strength. This is a topic to which my Spanish authorities attach great importance.

In the last WEO, an effort was made to quantify the so-called savings shortage, which we think was a valuable exercise and which should be followed up.

With regard to debt issues, we concur that the emphasis should be placed on discussing the progress and modalities of official debt restructuring. Emphasis should be placed in

particular on seeking ways for low-income countries to benefit from the far-reaching debt relief measures being discussed in the Paris Club.

On systemic issues and the role of the SDR, we see that the discussion that was originally to take place after the Bangkok Annual Meeting has been pushed back somewhat to early February 1992. We wonder whether this issue is still connected with the entering into effect of the Ninth Quota Review, since it seemed to be a sensitive issue to discuss in parallel with the quota discussions in the parliaments of certain countries. Still on systemic issues, we look forward to the paper on determinants of equilibrium exchange rates, which will certainly contribute to the active discussion of exchange rate policy that characterizes many of the Board's sessions.

On operational matters, the topics of burden sharing and the high cost of Fund resources have become more relevant than ever, and I am pleased with the idea of discussing these topics early next year. Given that Fund involvement in the U.S.S.R. will increase the Fund's administrative expenditures, and that these are financed by increasing the rate of charge, it is urgent to find ways to alleviate the burden that administrative expenditures represent for users of Fund resources.

On administrative matters, we would appreciate any comment on the difficult topic of staff morale. A briefing by the Administration Department at some point would be useful; we would be particularly interested in knowing if the recent changes and promotions have helped to boost staff morale.

We find ourselves again with a very heavy work load before us. The challenges and demands that the Fund confronts are formidable, and come at a time when the Fund staff is hard pressed. In order not to crowd out demands from our members, ways to supplement Fund efforts should be actively sought. We are willing to do our fair share in this historical process.

Mr. Fukui made the following statement:

The Managing Director's statement clearly describes our work program in the period ahead. I am in basic agreement with the elaboration of the work program and work priorities.

For some time to come, it is quite clear that priority should be given to the work related to the U.S.S.R., in view of the U.S.S.R.'s importance in the world economy and the historic significance of its economic reform. The Fund has a vital role to

play in helping to make the implementation of the reform as smooth as possible. Now that the special association agreement has been signed, technical assistance and policy advice need to be expeditiously extended in many areas. In this regard, I welcome the Fund's technical assistance missions to the U.S.S.R., starting from this week. However, as I noted at the meeting last Wednesday (EBM/91/147, 11/6/91), the Fund's assistance should be carried out in an orderly way. As soon as possible, we must establish our policy guidelines on assistance to the U.S.S.R. and set reasonable priorities among the various assistance programs that are being envisaged.

It is desirable that the increased work load related to the U.S.S.R. should be managed in such a way as to minimize any unnecessary and disturbing impact on other members and other Fund activities. Meanwhile, as emergency measures, we should take the following steps to cope with the heavy work load ahead.

First, the redeployment of staff resources across the board, together with a thorough streamlining of work, should be executed. In this regard, I expect strong leadership and decisive actions by management.

Second, we will most likely need to consider the postponement of a number of Article IV consultations, and an increase in the number of bicyclic consultations.

Furthermore, even with these measures, it might still be necessary to think about recruitment of additional staff, including outside consultants and staff seconded from member governments and institutions. However, any increase in staff should be justified by the work load. Even if an increase in staff can be justified under the current circumstances, I wonder whether the recruitment of additional staff should not be on a temporary basis to make it easier to cut back at a later stage.

At any rate, before such measures are considered, we need to look at the whole picture of envisaged assistance to the U.S.S.R. and get a reasonable estimate of the work load as well. At this point, I have a few questions to ask. I would appreciate answers, if not now, at least before the Board discussion of the budgetary outlook in the medium term, which is scheduled for December 11.

How many economists are needed in the European Department to cope with the current situation? How can they be secured? I would appreciate an elaboration of this, including the planned magnitude of redeployment of staff resources among departments. What is the current staffing situation--that is, the difference

between the actual number of staff and the ceiling? I would like to have the numbers by department and also by grade.

Regarding the work related to other applicant countries, I broadly endorse the Managing Director's suggestion that the applications by the three Baltic states be dealt with simultaneously by one committee, and those from the two Pacific countries by another committee. This would allow speedy and equitable determination of their quotas.

Concerning country-related activities, I would like to stress once again that staff papers on country items should be concise and well focused, in the interest--now particularly strong given this work program--of securing efficient use of our scarce human resources and of alleviating work pressure. Also, I can basically go along with the wider application of the bicyclic consultation procedure and postponement of consultations, if inevitable. However, this should be recognized as an emergency measure. We should not forget that consultations with member countries are one of the fundamental roles of the Fund. It is desirable to return to normal cycles of consultations as soon as possible, with a view to maintaining the Fund's close relationship with member countries.

With respect to the coming into effect of the quota increases, we strongly hope that the necessary procedures will be completed by the end of the year. I am greatly disappointed with the present prospects. If we have an occasion in December 1991 to discuss this matter, we should seek a constructive way to ensure that the quota increase comes into effect as early as possible.

With regard to the spring 1992 WEO, I broadly agree with the Managing Director as to the points that should be focused on. The issues specified in the Managing Director's statement are timely and appropriate. I would add that in addressing the problem of the world-wide shortage of savings, due attention should continue to be paid to the measures in developing countries as well as industrial countries and to international saving flows. In this connection, it seems useful for the WEO to follow the trend on unproductive public expenditure, including military expenditure. The WEO should present a clear picture of military expenditure.

With respect to the debt and trade issues, this chair would like to reiterate that the Fund staff's contribution to the progress report requested by the Development Committee should be no more than a concise and factual analysis, in order to keep the work load manageable.

I wish to stress again the central responsibility of the Fund for the continuous study of systemic issues, including international liquidity and the role of the SDR. In this connection, I am looking forward to reading the various staff papers on these subjects which are due out shortly. In particular, great importance should be given to the paper being prepared on international liquidity and the SDR. I hope that it will be ready on schedule for our consideration in early February 1992.

I welcome the Board discussion on extending the list of countries eligible for ESAF, and also the scheduled reviews of the Fund's financing facilities.

Before closing, I would propose that since technical assistance is now expected to play an increased role in the Fund's assistance to member countries, starting with the U.S.S.R., periodic and comprehensive reviews of technical assistance should be conducted. I support the Managing Director's statement.

Mr. Santos made the following statement:

I welcome the Managing Director's statement on the proposed work program for the period up to the spring meeting of the Interim and Development Committees.

I note that since the special association agreement was signed with the U.S.S.R., the Managing Director has developed an extensive work program in order to fulfill the terms of that agreement. It was clear from the Managing Director's presentation last week that the potential range of activities involved in the agreement and their concentration over the next few months will seriously affect the work of this institution. Unlike previous reviews of the work program, this one is taking place against the background of severely overstretched staff resources, making it a necessity to choose priorities. I therefore welcome the Managing Director's proposals to reorient our work priorities.

Given the tight constraints on staff resources--a point that was highlighted again at the previous Board meeting during our discussion on trade issues (EBM/91/151 and EBM/91/152, 11/11/91), one wonders whether Fund involvement in a single region on such a massive scale could not create the impression of disengagement in other needy regions. Governors representing countries in my constituency have on a number of occasions raised the issue, but they have been reassured that despite the increased demand on Fund resources--mainly on technical assistance--the institution will continue to manage its scarce resources so as to respond effectively to the needs of all its membership. I hope that the

necessary steps will be taken to enable the institution to manage its exceptional involvement in the U.S.S.R. in a manner that will not rekindle concerns over these issues. In this regard, I fully support the Managing Director's intention to hire additional staff, seek secondments from member countries, and recruit outside consultants for specialized assignments. While on this issue, the question that comes to mind is that of the cost. In this connection, I will be interested to know if some preliminary cost sharing mechanisms have been devised in line with the special association agreement. I look forward to discussing further this matter during our Board meeting on December 11, 1991 on the budgetary outlook in the medium term.

I can endorse the Managing Director's proposals to rationalize the work of the membership committees for the Baltic states and for the Pacific states. I also agree that we should consider the rules for the 1992 Regular Election of Executive Directors at an earlier date than July 1992.

I agree that work on country-related activities should remain central to the Fund's operations. I can support the criteria put forward for countries for which consultations will need to continue to be carried out annually. I am also prepared to support some ad hoc rearranging of our consultation cycle in order to accommodate urgent requests likely to come up, or any special circumstances in member countries' economic situation.

On the implications of the coming into effect of the quota increase, I have no difficulties with the planned discussions next Friday on issues relating to the coming into effect of the quota increase. I look forward to the Board seminar soon after the spring meetings on quota formulas, which we hope should address some of the issues raised by developing countries with respect to quota calculations.

On trade issues, I welcome the periodic information on the progress of the Uruguay Round negotiations, especially as the deadline for the completion of these negotiations draws near. I also welcome the Managing Director's intention to issue a joint paper with the World Bank on interlinkages between the policies of industrial countries and developing countries, concentrating on trade issues. Staff resource constraints notwithstanding, the Fund should strengthen the coverage of trade issues in Article IV consultation discussions with major industrial countries--a point that was made at the preceding Board meeting.

With regard to the debt strategy, in addition to covering the progress report in the discussion on the important issue of the modalities of official debt restructuring, I will be interested in

the continuous staff evaluation of the factors hampering the completion of financing packages with commercial banks, and ways to address this issue.

With regard to the policies on use of Fund resources and the design of Fund policy advice, I welcome the Managing Director's intention to issue in the next few weeks a paper on the expansion of ESAF eligibility for Board consideration. I have no difficulties with the proposed reviews of the SAF, ESAF, and ESAF Trust to be carried out by July 1992, and I can agree on the proposed postponement of the CCFF review. With regard to the staff work on the design of Fund policy advice, I note that the study on subsidy reduction and social safety nets is relevant to our work on centrally planned economies and has a wider application in a number of countries.

On administrative and related matters, I have no difficulties with the proposed date for our consideration of the budgetary implications of our work program on December 11, and I look forward to the discussion of the budgetary outlook for the medium term and to the discussion of this issue during our forthcoming retreat.

Mr. Dawson made the following statement:

We find the plan sketched out for work on the U.S.S.R. and other applicants for membership to be broadly appropriate given the current circumstances and available information, although there are a number of issues we would like to raise. While we understand that current missions are largely diagnostic, we would hope that before the end of the year, the staff could give the Board the first of a series of consolidated status reports on the different Central Banking Department, Fiscal Affairs Department, Statistics Department, European Department, and other missions that may take place. Ideally, the report would cover the current state of affairs, even if that simply explains, for example, that in a particular republic, preliminary statistics are still being collected, as well as a prognosis as to the next steps for the following six months. Those steps would include the numbers of Fund staff members expected to travel to each republic or to the center at each stage for the next six months. The report would also necessarily address progress--or lack of it--in reform efforts in each republic. We support Mr. Goos's comments about the attractiveness of resident representatives in the individual republics. It would be extremely useful to have the initial status report ahead of the discussion of the administrative budget currently scheduled for mid-December 1991.

In terms of providing appropriate personnel and administrative resources for the tasks associated with the U.S.S.R., we support filling the staffing needs as efficiently and quickly as possible, and we recognize that in the initial stages, the question is not one of plenty, but of want. However, we urge that a haphazard approach to hiring be avoided, both in order to be fair to the existing staff as well as for the long-term interests of the Fund. Here, I would like to associate myself with the comments of Mr. Goos and others. While we recognize that redeployment alone will not be sufficient, we would like to be convinced, through appropriate data, that redeployment of personnel has been utilized to the greatest extent possible before large-scale outside hiring is started.

We expect that the current budget exercise, due to be considered in December, will have identified personnel and functions that are not essential. While we agree that there is merit in continuing annual consultations with major industrial countries, we would suggest that the massive research papers that normally supplement the staff reports for these countries' Article IV consultations, while worthy and interesting, are not a high priority or the best use of scarce Fund resources at this time. As an example of the nonessential, I would point to the study of the U.S. health care system in the staff report for the 1991 Article IV consultation with the United States. Another area that could be cut back would be surveillance work more generally. In this connection, we support the proposal to put countries temporarily on the bicyclic consultation procedure and the 24-month cycle. These suggestions are meant to support the objective shared by all of us of not diverting attention or resources from program countries and others in need of Fund assistance. It would be appropriate to review these arrangements in one year. Those who are skeptical that a temporary arrangement will become a permanent one should recall the Board's discussion a year ago on the oil element of the CCFF; some feared that that would become a permanent facility, but those fears have proved unjustified, and that experience demonstrates what can be done where there is the will.

It would be reasonable to take up consideration of the rules for the 1992 Regular Election of Executive Directors in advance of July 1992. However, I wish to note that this chair has long agreed with the view, and the view of the United Kingdom, that the present Board is already somewhat unwieldy in size. Let us not presume that we are undertaking the review of the election rules with a view to changing the Board's size necessarily only in one direction.

We are not entirely sure what new ground might be broken in the proposed paper on the working of quota formulas, but we would certainly expect that this review should limit itself to the working of quota formulas, and not serve as a vehicle for launching the broader question of the adequacy of quotas. I look forward to a spirited discussion.

We look forward to looking again next spring at the world economic outlook. The recovery of growth should receive prominent attention. On current trends, only somewhat listless activity can be anticipated in the industrial countries. While recent WEOs have focused our attention on the risks of incipient inflation and rising real interest rates due to a shortage of global savings, recent market realities--except in Germany--have led to falling interest rates associated with weak economic activity, slumping investment, and receding inflation risks. There is no dispute about the need for a medium-term framework for establishing the conditions for sustainable growth with external viability. Strong savings and fiscal consolidation are indisputably key elements in this medium-term framework. However, we also need to consider more critically what elements in the current policy and economic environment might be frustrating our efforts to place ourselves on the desired medium-term growth path. Disregard of short-run conjunctural policy issues risks undermining the importance of our policy advice to our authorities. In that connection, I have not found the discussions of exchange rate developments to be particularly useful. I wonder whether we can cut back on that discussion, or find some way to make it more relevant. It might be observed that when nothing is happening in the exchange markets, there is little to say, and likewise, when much is happening, the participants are unwilling to say anything. The utility of the discussion can thus be questioned.

With regard to an examination of the adequacy of global savings, it would be useful to have a better analysis of the distinction between the volume of global savings and its international allocation. We would like to see a clearer review of how the international transfer mechanism is working to match up capital exporters with capital importers. Much of the apparent excess demand for savings seems to involve a presumption of a requirement for official financing. We would be interested in better analysis of the extent to which apparent savings shortages are a reflection of frustrated attempts to export--that is, a contemporary examination of the "trade, not aid" issue.

Reform issues in Central and Eastern Europe and the U.S.S.R. deserve a clear analysis, but we should be sure that the WEO exercise does not duplicate work being done elsewhere in the Fund.

Trade issues have just been reviewed fairly thoroughly by the Board, and we agree that, for the near term, further work in this area should focus mainly on responding to developments in the Uruguay Round negotiations and the preparations for the spring 1992 Development Committee meeting.

We would welcome a concise review of issues regarding management of the debt situation in time for the spring meetings. However, it is not clear from the Managing Director's statement whether one or two papers is intended. One should be sufficient; all the better if it is a combined effort of the staffs of the Fund and the Bank.

A paper on international liquidity and the SDR has been in the works for some time, and we look forward to seeing this work concluded by February 1992, as now proposed. The Board needs to have up-to-date views on SDR issues, but, at the moment, an overly ambitious review does not seem to be called for. The pressing systemic monetary issues which require our priority attention are fairly clearly those of structuring sound monetary systems in Eastern Europe and the U.S.S.R., rather than further inconclusive work on the SDR. In any case, the improved access to international capital markets of several indebted Latin American countries suggests to us that it would be more difficult than ever to point to a long-term global need to supplement resources.

The proposed paper on exchange arrangements of formerly centrally planned economies addresses fundamental issues of our work with these economies. We hope that the wide range of views on exchange rate issues that has been expressed in the Board in recent months will motivate the staff to present a clear summary of experience to date and a sharp delineation of the policy choices. We are not sure what new issues will be examined in the proposed paper on the determinants of equilibrium exchange rates, but the title itself is encouraging. From recent Board discussion, we thought that many Directors would have hoped for a paper on exchange rate determinants of equilibrium.

We look forward to the consideration of the expansion of the list of countries eligible for the ESAF. Additionally, we support the postponement of the CCFF review, given the already full agenda ahead of us in the coming months.

In the same light, the Board has recently devoted considerable time to the subject of military spending. Thus, the suggestion to have a December seminar on the economic implications of unproductive public expenditures comes as something of a surprise. Unless something new has come to light, a seminar on this subject

would itself seem to be an example of an unproductive use of public expenditures. We suggest that this work be circulated as a working paper.

The paper on issues in energy pricing policy covers substantive questions, but from the Board's commentary, it is already clear that there is little likelihood of a meeting of the minds on this topic. We doubt that putting this paper on the Board's agenda would serve any constructive purpose, since these issues are going to come up in country work.

We hope that the December review of the Fund's income position will include a discussion of the allocation of the settlement of special charges. We raised this issue and asked for a staff analysis for the second time this past spring. We would like to see it resolved before books are closed on the current financial year.

With regard to suggested discussions on burden sharing, given the time likely to be needed to be devoted to this issue based on past experience, the priority of other issues on our agenda, and our limited resources--both staff resources and in Executive Directors' offices--I would strongly recommend that the seminar on burden sharing principles be combined with the review of the burden sharing decision and the system of special charges that is scheduled to occur in the spring. Moreover, it continues to be our view that the existing burden sharing arrangement results from a lengthy difficult, and relatively recent series of discussions between members, and that we are not likely to benefit from a reconsideration of the issue.

Our general concerns on the personnel increases and administrative costs related to new membership applications have already been expressed. We look forward with considerable interest to a thorough discussion of all aspects of both the current budget and the medium-term budget outlook, as well as of how the budgetary process might be adapted for the future. It would be useful for the midyear budget review documents to be circulated in time for this discussion as practical background for the examination of current budgetary expenditures. Finally, like others, we welcome what we hope would be the final paper on the establishment of an Administrative Tribunal. I am also interested in an independent evaluation unit to deal with matters such as staff morale. It might be useful to meet with the Ombudsman in an informal restricted session on that subject.

Mr. Dawson, elaborating on his statement, said that it did not appear that the U.S. Congress would approve the necessary legislation to enable the

United States to consent to the increase in its quota before it adjourned for the year. He agreed with the Managing Director that the issue of the quota increase should be addressed in early December 1991. In any case, it was encouraging that although the bill in the House of Representatives containing the legislation on the quota increase and on the acceptance of the Third Amendment of the Articles of Agreement by the United States had been defeated, that defeat had been for reasons unrelated to the quota increase. There was a chance--although perhaps not a good chance--that the issue would be addressed again before Congress recessed. If not, it would be carried over into calendar year 1992.

The appropriations for virtually all of the international programs had been included in a continuing resolution that extended through March 1992, Mr. Dawson continued. The continuing resolution was a device to enable programs and spending to continue at the level of the previous year. However, because the Fund and a number of other programs had not been included in the budget for the preceding year, they were not included in the present continuing resolution. He hoped that the Congress would address the question of the fiscal year 1992 appropriations before the end of March 1992, which would include--he hoped--the appropriations for the quota legislation. However, that was not a certainty, and it should be borne in mind that foreign aid bills--in which the quota legislation was included--were often not eagerly dealt with on Capitol Hill. The Administration was looking at alternative approaches, such as removing it from the foreign aid bill and handling it independently.

The deadline of December 31, 1991 for the quota consent period was fast approaching, Mr. Dawson observed. The Interim Committee, in its communiqué, had noted that if the December 1991 deadline were not met, the Committee would wish to consider the appropriate steps that might be taken. The Board of Governors Resolution on the quota increase contained an explicit provision that the Executive Board could extend the deadline if it wished, however. He would support such an extension.

Mr. Evans remarked that several Directors had expressed the view that any increase in resources necessary for the program for the U.S.S.R. should be temporary, or largely temporary, and that, on a related matter, the changes to the surveillance procedures for members should be temporary. In his view, neither of those was likely to prove the case, and it was important to bear that in mind in looking at those matters. His view related in part to the attitude typically taken by Mr. Dawson's authorities, and in a less dogmatic fashion by the Australian authorities, to questions of Fund staff resources. While it was clear that Mr. Dawson's authorities were prepared to support an increase in Fund staff resources for the U.S.S.R. program at the moment, he believed that it would be another matter when, in 1993, the question of additional resources to restore a normal program of surveillance came up. The Board needed to think very carefully about what it was doing, and should not be deluding itself that the changes would be only temporary.

Mr. Dawson said that he had indicated that the net result was going to be a permanent increase in staffing. Nevertheless, it was prudent to begin the program of assistance for the U.S.S.R. by redeploying staff and hiring fixed-term appointees or consultants. Once it became clearer exactly what level of staffing would be necessary to accommodate the U.S.S.R. and the other applicant countries, and exactly what activities could be de-emphasized or reinforced, permanent additions to the staff could be contemplated. He supported the direction that the Managing Director had proposed.

Mr. Goos said that he supported Mr. Dawson. He also had not said that there would be no need for a temporary increase. He had referred to the upsurge of demand--a peak load--on staff resources at the beginning of the process of the Fund's involvement in the U.S.S.R., in particular relating to the need for preliminary missions to identify and get acquainted with the appropriate officials in the U.S.S.R.'s constituent republics. After a while, such activities would no longer be necessary. The Fund's activities in the U.S.S.R. could then be brought down to the usual level of its activities in other program countries.

Mr. Posthumus said that it seemed unrealistic to expect the Fund to add the U.S.S.R. and the other applicant countries to its current responsibilities without requiring some permanent increase in its staffing. After all, he assumed that the U.S.S.R. and the other applicants would become permanent members of the institution, and that the Fund would need to carry out with them the same types of activities--such as surveillance--as it did with its other members. A permanent increase in work load could not be dealt with by only a temporary increase in staffing. Moreover, the staff was overstretched already. In that respect, he was concerned about how the issue was being addressed. Of course, Mr. Dawson had enumerated a number of things in the work program that he saw as less than worthwhile and to be dropped, so as to make room for the work on the U.S.S.R., but every Director could come up with such a list, and those lists would not match, unfortunately.

Mr. Dawson said that he agreed that the lists of Directors were all different. Nevertheless, the Fund was confronted with monumental and historic changes taking place in the world economy which it could not avoid dealing with. That would require a certain redirection of attention and a recognition of the need to allocate scarce resources carefully. He did not wish the Fund to respond to the changes in a bureaucratic, rather than an efficient, manner. He did not see that the Fund had any choice but to approach the issue of the changes in the U.S.S.R. in the way the Managing Director had proposed.

Mr. Mirakhor commented that he recalled that Mr. Dawson had once said that while he was in Ukraine he had been disappointed that he had seen many more World Bank staff than Fund staff. Perhaps he could thus see his way

clear to supporting the recruitment of additional staff. He supported Mr. Dawson's proposal for a session with the Ombudsman, which would be constructive and informative.

Mr. Peretz said that he wished to associate himself with Mr. Dawson's comments, especially with regard to the need to deploy the Fund's scarce resources in the right way. As an institution of economists, the Fund should know that resources were not infinitely expandable. Management had begun to make the difficult decisions needed for the time being. He wondered what the reaction of the staff and the Managing Director might be to Mr. Dawson's remarks about the problems of the quota increase in the U.S. Congress.

The Chairman replied that he had intended to react to the quota situation at the end of November or beginning of December 1991, so as not to complicate the current discussion. It remained to be seen how the Interim Committee would deal with the situation, but he still hoped that things would turn out better than Mr. Dawson had foreseen.

Mr. Landau said that the increased output that would be expected of the Fund as a result of its involvement in the U.S.S.R. could be met either by increased input, or by an increase in productivity. He wondered whether it was reasonable to expect an increase in productivity.

The Chairman commented that at the end of the afternoon discussion, the Deputy Managing Director would provide Directors with some statistics on the implications for staffing levels of the Fund's program in the U.S.S.R. and in other applicant countries. It was his view that the Fund was already working quite productively, and that the institution was already extremely lean. Working without reserves was difficult, especially when there was a sudden need to shift resources to new, and urgent, priorities. He wished to confirm that the streamlining of the Fund's surveillance procedures would be strictly temporary.

The Executive Directors agreed to continue their discussion in the afternoon.

#### DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/91/152 (11/11/91) and EBM/91/153 (11/13/91).

#### 3. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 91/41 through 91/44 are approved.

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAP/91/264 (11/8/91) and EBAP/91/266 (11/11/91) is approved.

## Proposed Temporary Changes in Article IV Consultation Cycles 1/

Country name	Last con- sultation	Present Cycle		Proposed cycle	
		Cycle	Next con- sultation	Cycle	Next con- sultation
<u>Nonprogram countries 2/</u>					
<u>G-7</u>					
Canada	2/15/91	Standard	2/15/92	Unchanged	
France	9/09/91	Standard	9/09/92	"	
Germany	9/11/91	Standard	9/11/92	"	
Italy	1/30/91	Standard	1/30/92	"	
Japan	7/17/91	Standard	7/17/92	"	
United Kingdom	2/11/91	Standard	2/11/92	"	
United States	9/18/91	Standard	9/18/92	"	
<u>Other</u>					
Hong Kong 3/ 4/	1/23/91	Standard	2/13/92	Bicyclic	...
Saudi Arabia 3/	11/19/90	Standard	2/19/92	Bicyclic	...
Malaysia 5/	7/26/91	F Bicyclic	7/26/92	I	Unchanged
Yemen 5/ 6/	...	...	Dec. 91	Bicyclic	Dec. 91
Afghanistan	6/12/91	Standard	6/12/92	Bicyclic	6/12/92 I
Antigua & Barbuda	5/20/91	Standard	5/20/92	Bicyclic	5/20/92 I
Australia	5/29/91	Standard	5/29/92	Bicyclic	5/29/92 I
Belgium	5/31/91	Standard	5/31/92	Bicyclic	5/31/92 I
Chile	4/03/91	Standard	4/03/92	Bicyclic	4/03/92 I
China	2/13/91	Standard	2/13/92	Bicyclic	2/13/92 I
Djibouti 6/	3/02/90	Standard	Dec. 91	Bicyclic	Dec. 91 I
Dominica	2/01/91	Standard	2/01/92	Bicyclic	2/01/92 I
Greece	5/29/91	Standard	5/29/92	Bicyclic	5/29/92 I
Grenada	1/25/91	Standard	1/25/92	Bicyclic	1/25/92 I
Indonesia	5/22/91	Standard	5/22/92	Bicyclic	5/22/92 I
Iran	9/06/91	Standard	9/06/92	Bicyclic	9/06/92 I
Korea	11/08/91	Standard	11/08/92	Bicyclic	11/08/92 I
Myanmar 6/	1/12/90	Standard	Dec. 91	Bicyclic	Dec. 91 I
Namibia	6/03/91	Standard	6/03/92	Bicyclic	6/03/92 I
Netherlands	2/22/91	Standard	2/22/92	Bicyclic	2/22/92 I
South Africa	11/11/91	Standard	11/11/92	Bicyclic	11/11/92 I
Spain 7/	11/25/91	Standard	11/25/92	Bicyclic	11/25/92 I
Suriname 6/	1/19/90	Standard	Dec. 91	Bicyclic	Dec. 91 I
Sweden	9/06/91	Standard	9/06/92	Bicyclic	9/06/92 I
Syria	9/30/91	Standard	9/30/92	Bicyclic	9/30/92 I
Thailand	6/12/91	Standard	6/12/92	Bicyclic	6/12/92 I
Turkey	1/09/91	Standard	1/09/92	Bicyclic	1/09/92 I

\*Note: See revised list in EBD/91/311 (11/22/91)

Proposed Changes in Article IV  
Consultation Cycles 1/ (continued)

Country name	Last con- sultation	Present Cycle		Proposed cycle	
		Cycle	Next con- sultation	Cycle	Next con- sultation
Bhutan <u>8/</u>	10/16/90	Bicyclic	12/15/91 F	24 months	...
Botswana <u>8/ 9/</u>	10/05/90	F Bicyclic	1/05/92 F	24 months	...
Fiji <u>8/</u>	1/25/91	F Bicyclic	1/25/92 I	24 months	...
Singapore <u>8/</u>	12/05/90	F Bicyclic	12/05/91 I	24 months	...
Tonga <u>8/</u>	4/12/91	I Bicyclic	4/12/92 F	24 months	...
U.A.E. <u>8/ 6/</u>	7/24/90	I Bicyclic	Dec. 91 F	24 months	...
Austria	2/05/91	I Bicyclic	2/09/92 F	24 months	2/05/93
Belize	9/16/91	F Bicyclic	9/16/92 I	24 months	9/16/93
Cyprus	6/21/91	F Bicyclic	6/21/92 I	24 months	6/21/93
Denmark	5/16/91	I Bicyclic	5/16/92 F	24 months	5/16/93
Finland	8/22/91	I Bicyclic	8/22/92 F	24 months	8/22/93
Iceland	1/08/91	I Bicyclic	1/12/92 F	24 months	1/08/93
Ireland	12/31/90	I Bicyclic	2/09/92 F	24 months	12/31/92
Israel <u>7/</u>	11/22/91	I Bicyclic	11/22/92 F	24 months	11/27/93
Kiribati <u>7/</u>	11/27/91	I Bicyclic	11/27/92 F	24 months	11/27/93
Kuwait <u>6/</u>	6/11/90	F Bicyclic	Apr. 92 I	24 months	6/11/92
Lebanon	3/20/91	F Bicyclic	3/20/92 I	24 months	3/20/93
Maldives	5/22/91	F Bicyclic	5/22/92 I	24 months	5/22/93
Mauritius	7/29/91	F Bicyclic	7/29/92 I	24 months	7/29/93
New Zealand	7/01/91	I Bicyclic	7/01/92 F	24 months	7/01/93
Norway	3/01/91	F Bicyclic	3/01/92 I	24 months	3/01/93
Oman	1/23/91	F Bicyclic	1/23/92 I	24 months	1/23/93
Portugal	10/25/91	I Bicyclic	10/25/92 F	24 months	10/25/93
Seychelles <u>6/</u>	9/21/90	I Bicyclic	Dec. 91 F	24 months	9/21/92
Solomon Islands	11/06/91	I Bicyclic	11/06/92 F	24 months	11/06/93
Swaziland <u>7/</u>	11/22/91	F Bicyclic	11/22/92 I	24 months	11/22/93
Vanuatu	6/14/91	F Bicyclic	6/14/92 I	24 months	6/14/93
Western Samoa	3/07/91	I Bicyclic	3/07/92 F	24 months	3/07/93
Bahrain <u>9/</u>	4/30/90	18 months	1/30/92	24 months	4/30/92
Aruba <u>4/</u>	1/11/91	24 months	1/11/93	Unchanged	
Bahamas, The	6/08/90	24 months	6/08/92	"	
Libya <u>7/</u>	11/27/91	24 months	11/27/93	"	
Luxembourg <u>6/</u>	6/21/89	24 months	Jan. 92	"	
Malta	6/20/90	24 months	6/20/92	"	
Netherlands Ant. <u>4/</u>	2/16/90	24 months	2/16/92	"	
Qatar	1/26/90	24 months	1/26/92	"	
St. Kitts-Nevis	7/31/91	24 months	7/31/93	"	
St. Lucia	5/30/90	24 months	5/30/92	"	
St. Vincent	11/19/90	24 months	11/19/92	"	

Proposed Temporary Changes in Article IV  
 Consultation Cycles 1/ (continued)

Country name	Last con- sultation	Present Cycle		Proposed cycle	
		Cycle	Next con- sultation	Cycle	Next con- sultation
<u>Program countries 10/</u>					
Algeria	6/03/91	Standard	6/03/92	Unchanged	
Argentina <u>9/</u>	11/28/90	Standard	2/28/92	"	
Bangladesh	9/30/91	Standard	9/30/92	"	
Benin	7/26/91	Standard	7/26/92	"	
Bolivia	7/03/91	Standard	7/03/92	"	
Bulgaria	3/15/91	Standard	3/15/92	"	
Burkina Faso	3/13/91	Standard	3/13/92	"	
Burundi	1/25/91	Standard	1/25/92	"	
Comoros <u>9/</u>	11/19/90	Standard	2/19/92	"	
Congo <u>6/</u>	8/27/90	Standard	Dec. 91	"	
Costa Rica	4/08/91	Standard	4/08/92	"	
Côte d'Ivoire	9/20/91	Standard	9/20/92	"	
Czechoslovakia	1/07/91	Standard	1/07/92	"	
Dominican Rep.	8/28/91	Standard	8/28/92	"	
Egypt	5/17/91	Standard	5/17/92	"	
Equatorial Guinea	3/22/91	Standard	3/22/92	"	
Gabon	9/30/91	Standard	9/30/92	"	
Gambia <u>9/</u>	11/26/90	Standard	2/26/92	"	
Ghana	3/06/91	Standard	3/06/92	"	
Guinea	11/06/91	Standard	11/06/92	"	
Guyana	10/30/91	Standard	10/30/92	"	
Honduras	12/10/90	Standard	12/19/91	"	
Hungary	2/20/91	Standard	2/20/92	"	
India	10/31/91	Standard	10/31/92	"	
Jamaica <u>9/</u>	11/07/90	Standard	2/07/92	"	
Kenya	8/02/91	Standard	8/02/92	"	
Laos <u>9/</u>	11/28/90	Standard	2/28/92	"	
Lesotho	5/22/91	Standard	5/22/92	"	
Madagascar	2/22/91	Standard	2/22/92	"	
Malawi	2/15/91	Standard	2/15/92	"	
Mali	8/23/91	Standard	8/23/92	"	
Mauritania	8/28/91	Standard	8/28/92	"	
Mexico	11/06/91	Standard	11/06/92	"	
Mongolia	10/04/91	Standard	10/04/92	"	
Mozambique	3/20/91	Standard	3/20/92	"	
Nicaragua	6/21/91	Standard	6/21/92	"	
Niger <u>9/</u>	9/14/90	Standard	12/14/92	"	
Nigeria	10/02/91	Standard	10/02/92	"	

Proposed Temporary Changes in Article IV  
Consultation Cycles 1/ (continued)

Country name	Last con- sultation	Present Cycle		Proposed cycle	
		Cycle	Next con- sultation	Cycle	Next con- sultation
Pakistan	6/14/92	Standard	6/14/92	Unchanged	
Papua New Guinea	1/11/92	Standard	1/11/92	"	
Philippines	2/20/91	Standard	2/20/92	"	
Poland	4/18/91	Standard	4/18/92	"	
Romania <u>9/</u>	10/15/90	Standard	1/15/92	"	
Rwanda	4/24/91	Standard	4/24/92	"	
Sao Tome & Prin. <u>9/</u>	10/22/90	Standard	1/22/92	"	
Senegal	6/03/91	Standard	6/03/92	"	
Sri Lanka	9/13/91	Standard	9/13/92	"	
Tanzania	7/29/91	Standard	7/29/92	"	
Togo	8/23/91	Standard	8/23/92	"	
Tunisia <u>2/</u>	11/07/90	Standard	2/07/92	"	
Uganda	4/17/91	Standard	4/17/92	"	
Uruguay	9/16/91	Standard	9/16/92	"	
Venezuela	12/14/90	Standard	12/14/91	"	
<u>Near program countries <u>11/</u></u>					
Barbados	5/29/91	I Bicyclic	5/29/92	F Standard	5/29/92
Cape Verde <u>6/</u>	8/08/90	I Bicyclic	Dec. 91	F Standard	Dec. 91
Albania	...	Standard	...	Unchanged	
Angola	9/04/91	Standard	9/04/92	"	
Brazil	10/04/91	Standard	10/04/92	"	
C.A.R.	8/30/91	Standard	8/30/92	"	
Cameroon <u>6/</u>	5/16/90	Standard	Dec. 91	"	
Chad <u>6/</u>	5/16/90	Standard	March 92	"	
Colombia	2/13/91	Standard	2/13/92	"	
Ecuador	7/19/91	Standard	7/19/92	"	
El Salvador <u>6/</u>	8/27/90	Standard	Dec. 91	"	
Ethiopia <u>6/</u>	2/16/90	Standard	Jan. 92	"	
Guatemala	7/03/91	Standard	7/03/92	"	
Guinea-Bissau <u>9/</u>	10/05/90	Standard	1/05/92	"	
Haiti	6/26/89	Standard	Jan. 92	"	
Jordan	6/26/91	Standard	6/26/92	"	
Morocco	3/20/91	Standard	3/20/92	"	
Nepal	1/16/91	Standard	1/16/92	"	
Paraguay	9/13/91	Standard	9/13/92	"	
Trinidad & Tobago	6/22/91	Standard	6/21/92	"	
Yugoslavia	3/11/91	Standard	3/11/92	"	
Zimbabwe <u>9/</u>	11/12/90	Standard	2/12/92	"	

Proposed Temporary Changes in Article IV  
Consultation Cycles 1/ (concluded)

Country name	Last con- sultation	Present Cycle		Proposed cycle	
		Cycle	Next con- sultation	Cycle	Next con- sultation
<u>Arrears to the Fund</u>					
Cambodia	10/08/73	Standard	...	Unchanged	
Iraq	2/29/80	Standard	...	"	
Liberia <u>12/</u>	12/22/89	Standard	...	"	
Panama	3/27/91	Standard	3/27/92	"	
Peru	9/12/91	Standard	9/12/91	"	
Sierra Leone	5/31/91	Standard	5/31/92	"	
Somalia <u>12/</u>	11/13/89	Standard	...	"	
Sudan	7/24/91	Standard	7/24/92	"	
Viet Nam <u>9/</u>	10/26/90	Standard	1/26/92	"	
Zaire	3/06/91	Standard	3/06/92	"	
Zambia	4/17/91	Standard	4/17/92	"	

1/ Based upon stipulated consultation cycles unless otherwise indicated. I and F refer to interim and full consultations, respectively, under the bicyclic procedure.

2/ Does not include potential new members. Consultation cycles with new members would be established at the time of membership.

3/ Consultation discussions have begun. Will change to bicyclic cycle following Board discussion.

4/ Consultation discussions with these territories are held in the context of the consultation with the relevant member.

5/ Countries shifting consultation cycles after June 30, 1991 will remain on the present cycle.

6/ Next consultation dates based on notification of delay as reported in EBD/91/294, October 31, 1991.

7/ Tentative Board date assumed to be last consultation date.

8/ Consultation discussions have begun. Will change to 24 month cycle following issuance of Staff Report and/or Board discussion.

9/ Next consultation date includes grace period.

10/ Fund arrangement in place as of November 6, 1991.

11/ Defined as a country where substantive discussions with the staff are underway on a program to be supported by a Fund arrangement (or monitoring by the Fund under the provisions of Article IV).

12/ Current consultation postponed.