

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/138

3:00 p.m. October 2, 1991

R. D. Erb, Acting Chairman

Executive Directors

M. Al-Jasser

G. K. Arora

C. S. Clark

T. C. Dawson

E. A. Evans

R. Filosa

M. Finaish

H. Fukui

B. Goos

J. E. Ismael

A. Kafka

A. Mirakhor

D. Peretz

G. A. Posthumus

Alternate Executive Directors

A. A. Al-Tuwaijri

L. E. N. Fernando

Duan J., Temporary

C. M. Towe, Temporary

Q. M. Krosby

J. Prader

N. Kyriazidis

A. F. Mohammed

I. Fridriksson

P. Bonzom, Temporary

O. Kabbaj

L. J. Mwananshiku

J. K. Orleans-Lindsay, Temporary

M. Galán, Temporary

A. G. Zoccali

C. Brachet, Acting Secretary

B. R. Burton, Assistant

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Also Present

IBRD: G. B. Lamb, Policy, Research and External Affairs Office. African Department: M. Touré, Counsellor and Director; P. Heller, R. C. Williams. Central Asian Department: J. Schultz. European Department: A. K. Lahiri. Exchange and Trade Relations Department: J. T. Boorman, Director; A. Basu, M. E. Edo, S. Kanesa-Thasan, G. R. Kincaid, H. J. G. Trines. External Relations Department: S. J. Anjaria, Director; A. Mountford, S. Nawaz, M. A. Seeger. Fiscal Affairs Department: V. Tanzi, Director; K.-Y. Chu, R. Hemming, D. P. Hewitt. Legal Department: F. P. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel. Middle Eastern Department: A. S. Shaalan, Director; M. Knight. Secretary's Department: C. P. Clarke, A. Tahari. Statistics Department: J. B. McLenaghan, Director; R. M. Floyd. Western Hemisphere Department: E. S. Kreis. Special Advisor to the Managing Director: P. R. Narvekar. Special Advisor to the Deputy Managing Director: E. Brau. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. B. Chatah, C. D. Cuong, L. Dicks-Mireaux, B. R. Fuleihan, J. M. Jones, M. J. Mojarrad, K. Nakagawa, F. A. Quirós. Assistants to Executive Directors: G. Bindley-Taylor, Chen M., J. A. Costa, M. Da Costa, T. P. Enger, H. Golriz, E. H. Pedersen, O. A. Himani, V. Kural, W. Laux, P. R. Meron, M. Mrakovcic, P. Kapetanović, L. Rodríguez, S. Rouai, R. Thorne, Tun Win.

1. MILITARY EXPENDITURES AND ROLE OF FUND

The Executive Directors continued from EBM/91/134 (9/27/91) their consideration of a staff paper on military expenditures and the role of the Fund (EBS/91/155, 9/10/91). They also had before them a draft of the concluding remarks from that discussion (see Annex I).

The Director of the Exchange and Trade Relations Department said that questions raised by Directors during the discussion on military expenditures at EBM/91/134 (9/27/91) and on the staff report for the 1991 Article IV consultation with Syria (EBM/91/135, 9/30/91) seemed to suggest that the staff had been moving into new territory in the treatment of military spending. The staff had subsequently reviewed its treatment of such expenditures in some previous staff reports and the Board's reaction to them. The staff had noted that Directors' comments on military expenditures in Syria at EBM/91/135, for example, were consistent with the established practice over many years in discussions of Article IV consultations, generally, and for Syria, specifically. The 1989 Article IV consultation with Syria was a good example. Two aspects of the Syrian case particularly warranted attention. The first was the high level of government spending on the military, at 45 percent of government current expenditures. The staff commentary on that issue had been meant to highlight the fact that such a large military component in the budget inevitably entailed the diversion of resources from investment and, therefore, affected Syria's growth and development prospects.

The second significant aspect of the Syrian case was the deficiency of external debt data, which, in the staff's view, impaired its ability to assess fully the external situation and prospects, the Director remarked. That issue had been noted in the staff report on Syria, including the staff's assessment that the external position was likely to be somewhat weaker than the authorities' data suggested, given the supplementary data that the staff had on the external exposure of the country.

The Syrian case--and he cited it only because it had come up in the context of the broader discussion--raised the issue of the type of data that the staff could seek in the context of Article IV discussions, the Director noted. There should be no question--on the basis of either the Articles of Agreement or past practice--that fully comprehensive and internally consistent data for the fiscal and monetary aggregates and for the external accounts--both flow data of balance of payments and debt stock data--were essential to perform the minimum analysis needed in order to make the assessments on which the staff was required to advise the Board in the context of surveillance.

The staff's guiding criterion was to request the data needed to conduct the analysis that was necessary to assess members' macroeconomic policies and prospects, including exchange rate policies, the Director explained. Such data had always been requested by the staff. Unfortunately, members

had not always made that information available--at least not fully comprehensive information. One purpose of the recent staff paper on military spending had been to obtain the Board's guidance with respect to such cases. All members were required to provide such fully comprehensive and internally consistent data on the basic macroeconomic aggregates. The more difficult question--and the one that lay behind the concerns expressed during the discussion at EBM/91/134--revolved around the extent to which disaggregated data might be sought.

In that connection, the Director continued, it was not possible to catalogue the exact data that might be requested; as he had mentioned during the previous discussion, he could not envisage, for example, providing all member countries with the same blank tables with rows and columns identically labelled to be filled in as part of the Article IV consultation. However, the guiding criterion in requesting data would be the same for all members: the staff needed to have access to the data required to analyze members' macroeconomic policies and prospects sufficient to assist the Board in performing surveillance responsibilities. To fulfill that responsibility, the staff had always followed the practice of requiring data with some disaggregation across revenue and expenditure items in the budget and the balance of payments.

At the same time, the staff had to give consideration to members' genuine sensitivities with respect to national security, the Director said. The burden of proof in that context was on the staff to show the need for such data. Ultimately, however, it was for the Board to decide whether the staff's request should be supported in light of a representation in staff reports about difficulties experienced in fully accessing data. In many instances in the past, Directors--and the Board in general, as reflected in summings-up--had supported the staff's calls for more comprehensive budgetary data, including the folding into the budget of extrabudgetary accounts covering items such as military expenditure.

The timing of the Board's current discussion reflected in large part the heightened general attention to the possibilities for military spending reductions in light of recent developments in certain areas of the world, the Director commented. Those possibilities were important in view of the Fund's general concern about a possible ex-ante deficiency of saving to meet the new investment demands emerging in the world and the Board's concern about various individual cases in which the need for savings made it urgent that military spending be fully budgeted and, if possible, reduced. In its references to possible reductions in excessive military spending, the staff did not in any way intend to imply that it or the Board should decide precisely what reductions were possible.

The consensus of Directors during the previous discussion had been that the staff and the Board might not have the authority to determine whether a reduction in military expenditures was possible, the Director of the Exchange and Trade Relations Department recalled. However, the magnitude of

military spending could have an economic impact that affected macroeconomic prospects and performance. From that point of view, total expenditures, including military spending, were of interest to the staff and the Board.

The Acting Chairman noted that the Interim Committee's consideration of global savings and the productive use of scarce resources would be based on the discussions on the world economic outlook and, more important, the staff paper on military expenditures. Some Directors would have preferred to have additional time to reflect on the subject of military expenditures, but the Board's current exchange of views was needed as background information for the forthcoming Interim Committee meeting.

Mr. Goos stated that he could accept the proposal for including the concluding remarks among the Interim Committee's background documents, but somehow one had the feeling that that document would reflect the lowest common denominator. He would like the Board to be more explicit on the need to make military data more transparent and to stress that it expected all members to cooperate in presenting such figures. It was on exactly that point that Directors' views were split. As a compromise, he could support the concluding remarks.

Nevertheless, he wished to stress the point made in EBS/91/155 that any data deficiencies should be stated frankly in the staff report, so that the Board would have an opportunity to deal with the issue, Mr. Goos remarked. He asked the staff to comment on how it would handle sensitive situations in which the authorities might request the staff not to include any allusion to data deficiencies in the staff report. In his view, the staff should not accede to such requests; it should, for the reasons mentioned in EBS/91/155, set out the data deficiencies it had found.

He agreed with the Director of the Exchange and Trade Relations Department that the consensus in the Board at EBM/91/134 was that the Fund should refrain from an explicit assessment of the appropriateness of the level of military expenditures and leave that matter to other organizations through bilateral relations, Mr. Goos said. Given that consensus, he had been surprised to read the contrary in the Washington Post on September 30--only a few days after the Board meeting--that a high-ranking Fund official had outlined a new Fund strategy proposing mutually agreed upon global defense spending reductions that would be formally unveiled at the Annual Meetings in Bangkok. As Mr. Posthumus had mentioned at EBM/91/134, it would be more appropriate for any Fund representative to await the outcome of Board discussions on such important subjects before going public.

Mrs. Krosby remarked that she strongly agreed with Mr. Goos. Linking a possible disarmament role for the Fund with the goals set out in the staff paper would negate the effort to achieve those goals.

Mr. Posthumus stated that he could basically support the draft concluding remarks, but he would appreciate some clarifications. He agreed with

Mr. Goos that the interview given the Washington Post did not reflect the actual discussion that had taken place in the Board. He hoped that the senior official quoted in the article would be informed that there were at least two Directors who did not appreciate the comments made to the Post. He also agreed with Mrs. Krosby that a linkage between the broader arms reduction discussion and the role that the Board was discussing should be avoided.

He asked the staff to comment on the first paragraph of the draft concluding remarks, in which the words "many" and "most" were used repeatedly, and--perhaps most Directors would agree--unnecessarily, Mr. Posthumus said. In the beginning of the second paragraph, two things were not clear. "A number of Directors" was placed vis-à-vis "some others." That wording incorrectly implied that what remained was a large majority, who had not expressed any view. A distinction should be made between the collection of data and data analysis.

Mr. Evans said that, like previous speakers, he had been somewhat perturbed by the Washington Post article that had appeared after the Board's initial discussion of military expenditures and the role of the Fund. However, he was reassured by the text of the draft concluding remarks, because it contained no provisions that would allow the Fund to get involved in the sort of new global strategy that the article had referred to. As he had in the discussion on the environment, he wanted to make clear that his only concern was that the Fund not endanger its relationships with individual members to the extent that it would be inhibited in performing its basic role. Therefore, he suggested that that concern be incorporated into the concluding remarks in the form of a final paragraph with words such as the following: "In implementing the process as described above, the Fund will be guided by the need to maintain the cooperation with members necessary for the fulfillment of its mandate."

With respect to the final sentence in the fourth paragraph, he agreed with the idea expressed there, but he wondered whether the reference to performance criteria was not too limiting, Mr. Evans remarked. Performance criteria were a part--but only a part--of Fund conditionality. The words "performance criteria under Fund arrangements" should be replaced by more appropriate wording, such as "conditions and objectives, including performance criteria, if necessary."

Mr. Peretz stated that he agreed with Mr. Goos's comments on the draft concluding remarks. In addition, the draft should make clear why the Board favored what he regarded as the lowest common denominator, rather than favoring the approach described at the beginning of the second paragraph: "While a number of Directors saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending...." That number of Directors, by his reckoning, probably constituted a majority of the voting power of the Board. However, all Directors recognized that the course of action that they took would require the cooperation of all member

countries. Therefore, more than a straight majority of the Board was needed. Directors should be looking for an approach that commanded a wide degree of support.

Continuing to the next sentence in the second paragraph, rather than just saying, "In light of these diverse currents," Mr. Peretz proposed the following wording: "Since the proposal seeks to collect data from all members, in the context of Article IV discussions, it would require the cooperation of members. Directors felt it important to find common ground that would command a wide degree of support among the Board." The text should refer to the fact that the staff would be able to use the data that they did collect to carry out some cross-country analysis of the macro-economic implications of military spending. He did not recall that any Directors had considered that activity to be outside the Fund's mandate. Irrespective of what Directors concluded, Ministers in Bangkok might express different views during the meetings of both the Development and Interim Committees.

Mr. Arora said that the Director of the Exchange and Trade Relations Department's comments at the beginning of the current discussion reinforced his own observations at the previous meeting that access to data on military expenditures should be linked to the existing consultation process, which already specified procedures whereby countries were to make data available to the Fund without inhibition. The Fund did not want to give developing countries the impression that some new situation was being introduced into the relationship between the Fund and its members. In fact, many countries already supplied information on military expenditures.

The Fund had programs with approximately 50 countries, and that number was bound to increase in the future, Mr. Arora remarked. In program countries, the Fund had considerable influence over both which data were supplied and which policies those countries should follow as a result of the macroeconomic analysis flowing from that data. The Fund generally had less influence in countries where it did not have programs.

It was inconsistent to advocate that military expenditure data should be made available to the Fund for analysis without recognition that that analysis might well lead to a policy recommendation to reduce military expenditure, because it impaired macroeconomic performance, Mr. Arora commented. Hence, the information in the Washington Post article might not be so far off track, despite what some earlier speakers had said.

Member countries understood the importance of their military expenditures, whereas the cross-country analyses suggested by Mr. Peretz failed to account for the fact that what might, at first, appear to be a large expenditure might turn out to be justified in the light of the situation in a particular region, Mr. Arora stated. The Fund should not make value judgments of countries' decisions on the proportion of resources devoted to military spending. There was a heightened awareness currently that military



expenditures should be reduced. But that was precisely what a majority of Directors had asked the Fund not to recommend. However, it was his view that it was impossible for an intelligent person to make an economic analysis using military expenditure data and then to suppress his or her views about it. Directors were asking the Fund to do something which would go against the intellectual exercise that had been conducted.

He agreed with Mr. Peretz, despite reservations expressed by other Directors, that a majority of Directors, in terms of both number of speakers and voting power, saw a role for the Fund in the collection and analysis of military expenditure data, Mr. Arora said. With respect to the last sentence of the fourth paragraph, "To the extent a member provides disaggregated data, Directors agreed that such data should not serve as a basis for establishing performance criteria under Fund arrangements," his impression of the debate at the previous meeting was that, whether or not a country provided disaggregated data, the question of conditionality did not arise. However, that sentence gave the impression that in certain circumstances it might be possible for the Fund to have disaggregated data, because some country might provide it, although it was not a performance criterion or did not arise from conditionality. However, he wondered what the Fund would do if the member provided only aggregated data.

He also agreed with Mr. Peretz's view on the importance of members' cooperation, Mr. Arora remarked. The importance of that cooperation with members should be emphasized. Therefore, it would be advisable to eliminate the two sentences beginning "however, if data deficiencies were thought to impair the ability...", because it followed that if member countries were not cooperating and the Fund was exercising its Article IV responsibilities, the staff would comment on whether the consultation was proceeding satisfactorily. The sense that was then conveyed was that the member that was not cooperating was misbehaving and should be punished, with the punishment to be decided by the Board. To make an acceptable and effective statement, that sense needed to be removed. A statement that the Fund was not being assisted to the degree that it should have been could still be made at the time the Board discussed the Article IV consultation.

The idea of performance conditionality had been pressed forcefully by Directors during the previous discussion, Mr. Arora recalled. If a forceful statement could be made in that connection, it would allay considerable suspicion.

Mr. Filosa remarked that--at the risk of giving the impression that Directors were considering a document that was not before them, namely, the Washington Post article--although he had been surprised and displeased by the article, he had been even more surprised not to see in the same newspaper on a subsequent date an official objection to the journalist's interpretation, because the impression had been given that the Fund had a strategy for estimating the extent to which military expenditure could be reduced and for proposing that the savings from that reduction should be

invested in Eastern Europe. He hoped that future discussions in the Board would not again be pre-empted by articles in the Post.

He agreed with the views of the Director of the Exchange and Trade Relations Department, Mr. Filosa said. He could, therefore, support the draft concluding remarks. He suggested that the words in the fourth paragraph, "It would be for the Board to consider the implications of such deficiencies for the conduct of its surveillance responsibilities," would better reflect what the Director of the Exchange and Trade Relations Department had said in his opening statement if they were changed to say that data deficiencies that remained unresolved would be brought to the attention of the Board in the staff report in the manner in which such later deficiencies were normally reported and considered by the Board for the conduct of its surveillance responsibilities. That was a straightforward way of expressing what was meant by the staff paper without giving the impression that the Fund was paying special attention to that data vis-à-vis other data that might be equally relevant.

The last paragraph said that some countries were currently contemplating a reduction of their military establishments, Mr. Filosa stated. Directors had noted that such reductions were being contemplated in Eastern Europe, Central America, and some industrial countries. That paragraph should be revised to allow for future decisions by other countries and by regions other than those listed. He suggested that the wording of the first sentence be changed to read: "Countries, when contemplating downsizing their military establishments, may wish to be assisted in assessing the possible effects of such downsizing on macroeconomic performance." He would leave the third sentence as it stood, except for the deletion of the reference to Eastern Europe, Central American, and other industrial countries.

Mr. Fukui commented that he, too, had been puzzled and surprised by the Washington Post article. Its content had certainly gone beyond the Board's discussion. The draft concluding remarks appropriately covered the main points of the Board's discussion, and he could support them.

With respect to the fourth paragraph, which discussed the level of the aggregated data, it was his view that aggregated data would generally be sufficient for the purpose of macroeconomic analysis, Mr. Fukui said. After the explanation given by the Director of the Exchange and Trade Relations Department, he now believed that disaggregated data might be necessary to give some meaningful analysis of the discussion. However, the extent to which data should be disaggregated was a sensitive issue and could not be clearly defined at the present juncture. It was his understanding that, according to the draft concluding remarks, if the discussion between a member country and a mission reached a stage at which it was the staff's view that disaggregated data were needed and the authorities disagreed, then the problem should be brought back to the Board for discussion. With that understanding, he could accept that paragraph.

In the last sentence of the third paragraph, reference had been made to the comprehensiveness and timeliness of data reported by authorities, Mr. Fukui noted. Mr. Goos had pointed out the need for transparency in the data, and the Board had discussed that need too. Therefore, that idea should be added to that sentence.

The Director of the Exchange and Trade Relations Department commented that the critical issue was the extent to which the data provided by the authorities would be presented in the Board documents. Data made available to the staff for its analysis was, in some instances, far more detailed than that presented in the Board documents for the Article IV consultation or for a program review. Authorities might want to provide the staff with data for the purpose of a certain analysis--particularly if the authorities were seeking assistance in analyzing a particular change that might be taking place in the size of their military establishment--but would not want it printed anywhere. So transparency would be a matter of judgment.

Mr. Posthumus said that he wondered whether he should conclude that transparency was to be included or excluded from the draft concluding remarks.

The Director of the Exchange and Trade Relations Department replied that there was agreement on the need to conduct analysis. Where Directors disagreed was on the appropriate data disaggregation and how it should be presented. He had suggested that data disaggregation was a function of the type of analysis that had to be performed in each instance to provide the information that the Board needed to conduct its surveillance responsibilities. As to presentation, the results of the analysis could be given without presenting details of the data. The preferences of the authorities in terms of the kind of presentation that would be made was a reflection of sensitivities to national security issues. He could not, at that stage, provide a definition of the appropriate limits of transparency that could be applied generally; in the same sense, the staff could not provide the Board with uniform sets of blank tables requesting that all authorities fill in the same tables.

Data collection had to be on a case-by-case basis, owing to varying analytic needs, the Director of the Exchange and Trade Relations Department said. The first concern of the staff would be to make sure that it had fully comprehensive data within the context of the aggregates. In addition, it needed disaggregated data to conduct its analysis. The subsequent presentation of that disaggregated data involved questions of member countries' sensitivities, perhaps involving national security, for which it was not possible to set hard and fast rules.

Mr. Mirakhor noted that a number of Directors had referred to the last two sentences of the third paragraph. In addition to the difficulties that Mr. Arora had listed, there was an operational difficulty, in that if the Board was to be asked to judge whether the authorities' responses to data

requests were deficient, the Board needed to have some point of reference for making that judgment. Currently, the Board had no idea what data the staff would ask the authorities for; that information would be necessary before the Board would be able to determine what constituted a deficiency. For example, with respect to Syria, the only question that apparently had been asked--as reported in the staff report--was the percent of current expenditures devoted to military expenditures. He wondered whether that was the kind of aggregate data that the staff would be asking and whether, if a government did not give that information, the Board would consider the response to be deficient.

Because emphasis had been placed on voluntary cooperation and the necessity of advising authorities, Directors should seriously consider Mr. Arora's proposal to drop the last two sentences of the third paragraph Mr. Mirakhor said. If not, the Board should at least have some idea of what it was that the staff would be asking. For that reason, he had asked whether it was possible for Directors to have some idea of the guideline that was to be given to the staff on what it could ask for and what it could not. Otherwise the ambiguity would remain, and the Board would have difficulties in the future in determining exactly what constituted data deficiencies.

Mrs. Krosby recalled that, in addition to the Washington Post, the New York Times had carried a report on the earlier Board discussion of military expenditures. Given those newspaper articles, Directors should be careful that the concluding remarks expressed their views precisely to avoid any future hyperbolized and distorted newspaper accounts, especially before the Annual Meetings. The calls that she had received from the press indicated that reporters were very interested in the Board's discussion.

Mr. Kafka said that he agreed with Mrs. Krosby and Mr. Evans. He asked for clarification on the second sentence of the fifth paragraph, which read in part: "In such cases, the authorities would presumably be willing to provide such data as would permit more detailed economic analysis...." Moreover, the remainder of that sentence--"and facilitate policy decision"--begged the question, whose policy decision? It could not be the authorities' policy decisions, because they already knew the data. It could not be the staff's policy decision, because the staff did not have military experts. He suggested that, at a minimum, the words "and facilitate policy decision" be stricken from that sentence.

The Director of the Exchange and Trade Relations Department remarked that the presumption was that the staff would be cooperating with the authorities in an analysis that would feed new information to the authorities, on the basis of which the authorities would be able to take better policy decisions on the economic aspects of military expenditures--not on the national security aspects.

The Acting Chairman remarked that, if, for example, a government was going to reduce its defense expenditure by 3 percent of GDP, then it would want to know the impact on fiscal and monetary policy; that analysis would facilitate economic policy decisions, but it would have nothing to do with national security decisions.

The Director of the Exchange and Trade Relations Department said that the text in question could be clarified even further by changing the word "decision" to "discussions." Those discussions could be either the discussions between the staff and the authorities on the macroeconomic impact of the decisions that they might be taking, or the authorities' own internal discussions, which could be based, at least in part, on additional information provided through the staff's analytical work.

Mr. Kafka suggested that the concluding remarks explicitly state that the data were to be provided exclusively for economic analysis and economic discussion and leave out such unclear phrases as "facilitate policy decision."

Mr. Al-Jasser stated that his fears had not been fully allayed by the draft concluding remarks currently under consideration. For example, paragraph 4 described how the staff would approach the collection of data on military expenditures and its analysis. Although the paragraph noted that the data were highly sensitive, it insisted on disaggregated data, despite references to the adequacy of aggregate data. The word "disaggregation" was used frequently in that paragraph. The statement that disaggregated data on military spending would be necessary to assess fully the growth prospects of the economy and that the staff would request such additional information that might be necessary meant that even disaggregated data might not be sufficient for the analysis. Moreover, it was contradictory to refer to the voluntary cooperation of the authorities and to say in the third paragraph that aggregate data, including military transactions, "must be reported fully to the Fund." After stating that data would be at a highly aggregated level, the text discussed the need for disaggregated data in the next paragraph, but then, in the same paragraph again said that data required were expected to be at an aggregate level.

The draft concluding remarks were confusing and worrisome as to what the Fund as an institution was trying to do, Mr. Al-Jasser commented. If the Fund had a disarmament role, then the discussion should be couched differently. He shared the views expressed by previous speakers that the initiative reported in the newspaper articles which had quoted a senior Fund official exceeded the staff paper that Directors had discussed. Even in the last paragraph of the draft concluding remarks, which seemed to be the least objectionable, it appeared that the Fund would insist on data from countries that were downsizing regardless of whether or not they had asked for Fund technical assistance.

Much remained to be done to allay the concerns of the membership, Mr. Al-Jasser remarked. Mr. Evans had rightly pointed out that the cooperation that the Fund already had with the membership was at stake. He hoped that the Fund would not jeopardize that cooperative relationship by indulging in politically charged topics that, although they had some had economic impact, could have significant costs in terms of the Fund's relationships and the fulfillment of its more important tasks. There had not been sufficient discussion to be able to present concluding remarks to the Interim Committee. Although he agreed with Mr. Peretz that Ministers could speak on anything they wanted to at the Interim Committee discussion of the topic, he was not comfortable about the Board giving the Interim Committee a document that might be understood to say that the Board supported such an expanded role. Directors had not yet heard from the General Counsel, and many points made at the previous discussion had touched on legal aspects. The topic had been considered with too much haste, and it would not be correct for the Fund to proceed in the way that had been suggested thus far.

The Acting Chairman said that the ambiguity in the fifth paragraph that Mr. Al-Jasser had noted of countries providing data on military downsizing irrespective of whether or not they had requested assistance from the Fund could be eliminated. That text was intended to apply only to those countries that wished to engage the Fund in that kind of discussion. An earlier version had had a slightly different first sentence that had not had that ambiguity. A phrase could be inserted to the effect that, when authorities sought such assistance, they presumably would be prepared to provide the necessary data.

The Director of the Exchange and Trade Relations Department responded that he was not sure to what extent Mr. Al-Jasser's concerns could be satisfied simply by language changes. In the last paragraph, the expression "would presumably be willing" had not been intended to imply willingness in response to a request from the staff. The authorities were simply asking for assistance and, therefore, were making available the data the staff needed to conduct the analysis that the authorities had asked it to conduct. Changing the phrase from "would presumably be willing" to "may wish" would make no effective difference. Similarly, in the fourth paragraph, "such additional" was not intended to be read with the meaning Mr. Al-Jasser had attached to it. The first part of the paragraph talked about disaggregation. The phrase "such additional" did not refer to yet another level of disaggregation; it simply referred back to the disaggregated data mentioned in the first few sentences of the paragraph. Such problems could be dealt with in redrafting.

Mr. Al-Jasser observed that, in the fourth paragraph, the disaggregated data that the Fund would request referred to military spending. That disaggregation exceeded the aggregated data referred to in the third paragraph, which referred to aggregate data which included fiscal expenditures, international trade, and external assets. The Director of the Exchange and Trade

Relations Department had shown that the draft concluding remarks contained an open-ended statement that could be interpreted in any way one wanted to.

Mr. Filosa said that the rephrasing of the fifth paragraph suggested by the Director of the Exchange and Trade Relations Department concurred with his recommendation. That rewording would include not only those countries that had currently expressed such intentions, but also all those that in the future would take such a step and, therefore, could ask the Fund for assistance in making an evaluation of the economic consequences of their decision.

Mr. Clark, referring to the fifth paragraph, said that the Executive Board seemed to be moving to a view that it did not want to give the staff a tremendously expanded role with respect to military expenditures. The comments of the Director of the Exchange and Trade Relations Department at the start of the current discussion suggested that the staff had not been asking for a tremendously expanded role in that area; in fact, the Director had suggested that the collection of military expenditure data was consistent with the collection of any other needed to have fully comprehensive and internally consistent data at an aggregate level and, in some circumstances, at the disaggregate level. He had certainly been prepared to support that proposition. In fact, at the time he had not been able to understand the purpose of the Board's previous discussion. Of course, the article in the Washington Post had soon turned on the light. As the saying went, one should always look for the other agenda.

He had found all the paragraphs before the last one, paragraph 5, quite acceptable and straightforward, Mr. Clark stated. Unlike Mr. Al-Jasser, he had found the last paragraph the most difficult, because to that point, the contents of the draft concluding remarks were consistent with the need for comprehensive and consistent data. But the last paragraph moved the discussion a long way from simply doing what the Fund should be doing, and he wondered whether that paragraph needed to be included. Any country could ask the Fund to do analytical work, be it an analysis of military expenditures or another topic. If the resources were available and an agreement could be reached, then the work would be done. Therefore, it was not clear why that particular paragraph needed to be included in the concluding remarks.

Mr. Prader remarked that his chair would have preferred to have had the discussion on military expenditure in the wider framework of a discussion on unproductive expenditures. However, he could accept the concluding remarks, although they represented only a minimalist position.

A number of Directors had criticized the political nature of looking into military expenditures, Mr. Prader noted. It should come as no surprise that lowering the ideological temperature would lead to changes in the Fund, including glasnost. He recalled that, before the major changes in Eastern Europe, Directors with Eastern European countries in their constituencies

had been used to political questions. It was even pointed out that economic liberalization would lead to political liberalization. Now, after 40 years, the fact that the Fund could request military data from Eastern European nations and that those countries recognized the implications of the request for economic analysis should come as a relief to Directors.

Mr. Zoccali said that voluntary cooperation was, as other Directors had mentioned, the essence of any workable strategy. The current draft was a common denominator. Nevertheless, national security was a sensitive issue, and there might be some difficulties not resolved by drawing a line, as suggested, between the reporting of disaggregated data and the analytical presentation. He could live with the basic thrust of the draft. However, he agreed with the comments on the fifth paragraph by Mr. Evans, Mr. Clark, and Mr. Kafka.

Mr. Goos noted that the second and third sentences of the first paragraph were somewhat repetitive. The text had referred to the world economic outlook and, in that connection, the relationship between military spending and the shortage of global resources. The text then alluded to the initial discussion of military expenditure and the role of the Fund. Therefore, he suggested keeping only the first part of the third sentence--"In the more recent discussion on Military Expenditure and the Role of the Fund"--and drop the following four-and-a-half lines and continue with "Most Directors indicated that as military expenditures can have an important bearing...."

With respect to the issue raised by the Washington Post article, Mr. Goos wondered whether there was a strategy proposing mutually agreed global defense spending reductions under preparation by the staff and whether it would be unveiled at the Annual Meetings.

The Acting Chairman replied that he was not aware of any such strategy. Directors need not read too much into the Post article. The author of the article tended to exaggerate.

The Director of the Exchange and Trade Relations Department said that the staff, which was not preparing such an initiative, had been surprised by the Washington Post article.

Mr. Filosa remarked that he wondered why the Fund did not reply to the recent newspaper reports on their discussion on military expenditure. Although there was no need to respond to articles that raised minor problems, the articles in question had been detrimental to the Fund's public image. The Fund should respond to significant unwarranted newspaper articles.

The Acting Chairman replied that Fund practice had been not to respond to newspaper articles, because a response was more likely to result in an



expansion of the story than a correction. Stories were more frequent at the time of the annual meetings.

Mr. Dawson commented that he had spent some time attempting, with little success, to encourage the Washington Post to publish more factually correct articles. The Acting Chairman's view of Fund practice with respect to corrections to newspaper articles was well founded. It was his experience that a request for a correction generally only spawned a rerun of the article, with an appended denial by the party misquoted.

Mr. Finaish remarked that his authorities had not yet had the chance to look at, much less to respond to, the draft concluding remarks. It was unfortunate that Directors had been forced to compress their discussion of such a sensitive issue. Like other speakers, he detected some vagueness in certain sections that might, because the document was to serve as guidelines for the staff, result in its misinterpretation.

The last sentence of the first paragraph captured the limits to Fund involvement that a majority of Directors had underscored during the previous discussion, Mr. Finaish commented. The first paragraph dealt with the general issue of the desirability of shifting resources from military expenditure to other uses that enhanced investment and output. The last sentence said that it was not appropriate for the Fund to address the level. Therefore, the reference to data in the middle of the paragraph did not seem relevant. The fourth sentence in the first paragraph should be dropped.

He understood the rationale underlying the third paragraph, but the purpose of the fourth paragraph--one that many previous speakers had addressed--was not clear, Mr. Finaish said. The reference to data disaggregation suggested that the staff needed to know the components of military spending in order to clarify correctly the national or fiscal accounts--a step which would require separate identification which the third paragraph was prepared to forego. The national or fiscal accounts should be inclusive of military components--provided those components were classified by the authorities themselves, rather than by the staff.

Again, with respect to the fourth paragraph, Mr. Evans and Mr. Arora had already referred to the sentence on conditionality, Mr. Finaish recalled. During the previous discussion, Directors had also referred to conditionality. Therefore, the paragraph should stay, but the reference in the second part of the sentence "...should not serve as a basis for establishing performance criteria under Fund arrangements" should be amended to read "...should not serve as a basis for conditionality in the use of Fund resources."

The third paragraph seemed to be generally acceptable to many speakers, Mr. Finaish observed, but he had one word of caution. On the one hand, one could not dispute that partial data which did not cover certain items could complicate the staff's ability to make macroeconomic assessments. On the

other hand, a transition from partial to comprehensive data, even when provided only at the aggregate level, might indirectly provide information on items that had been excluded in the past. Therefore, for some countries, security questions might arise at the time of transition from partial to comprehensive but aggregate data. He was not sure how to deal with that problem, but Directors should at least recognize the dilemma. If the Board were to discuss a staff report for an Article IV consultation with a country that gave the Fund partial data--for example, a debt of \$5 billion that excluded military debt--then, at the next consultation, when that country was asked for disaggregate information, the size of the military debt would be immediately obvious. Whether or not that approach was legitimate, the Fund would be faced with the problem of transition from current to new practices. Some countries might be sensitive to such requests and would not, at least immediately, give data even in the aggregate.

Mr. Al-Jasser stated that he fully agreed with the views of the Acting Chairman and Mr. Dawson on the Fund's practice of not responding to inaccurate reports in the press. However, about two years ago, the Managing Director had expressed to the Board his disturbance over a leak of information from the world economic outlook discussions. Likewise, Directors and senior Fund staff were distressed by the current leak to the Washington Post and the New York Times. They needed to have their concerns allayed that the role of the Board was not being undermined by a disarmament initiative being prepared for announcement at the Annual Meetings in Bangkok--an initiative they knew nothing about, except for what they had read in the newspapers. Therefore, it would be helpful if a senior staff member were to tell the Board that what was said was incorrect. A statement was needed because the Acting Chairman had not felt comfortable denying categorically the existence of such an initiative. As a result, he was quite concerned that Board members might be the last to know what action the Fund might take.

With respect to Mr. Prader's point on glasnost in the Fund, he had learned in his introductory economics course that specialization and division of labor, based on comparative advantage, existed in a more advanced state of social organization, Mr. Al-Jasser recalled. That image was the one he had of the Fund, and he was both proud and a little protective of it. Perhaps another institution was needed to deal with new issues; in the case of cutting military spending, the disarmament initiatives could be institutionalized in a new agency sanctioned by the Security Council or some other body. However, the Fund should guard its specialization.

The Acting Chairman noted that the Managing Director's draft speech for the Annual Meetings included no disarmament initiative. His conversations with the Managing Director on military expenditures had reflected their conclusion that the downsizing of the military, particularly in Czechoslovakia, would be a challenge for countries that were transforming their economies. No broad strategy for the Fund's role with respect to military expenditures had been mentioned in their discussions.

Mr. Al-Jasser replied that the Acting Chairman's statement explaining what he knew with respect to the alleged initiative had allayed his own concerns. Everyone would have been even more reassured had such a statement been made after the newspaper report had appeared.

Mr. Mirakhor noted that the current Financial Times had also reported that the Managing Director would deliver a statement on disarmament and military matters at the Annual Meetings.

Mr. Goos commented that he welcomed the Acting Chairman's explanation. However, he proposed that, in addition, Executive Directors agree that should the Managing Director decide to go beyond speaking in general about the issue in reference to the reform process in Eastern Europe and underscoring the need for savings to propose a strategy, then he should inform Executive Directors prior to his address in Bangkok.

Mr. Prader recalled that the Acting Chairman had mentioned the problem of converting military production in Czechoslovakia to civilian production, and, at EBM/91/134, the French chair had proposed that that issue be studied. He wondered whether that proposal had been taken up by the staff.

The Director of the Exchange and Trade Relations Department said that, with respect to Mr. Clark's comment about the last paragraph of the draft concluding remarks, the structure of those remarks was meant to reflect the three levels of data that the staff considered necessary. The first level was the fully comprehensive fiscal, monetary, balance of payments, and debt data--basically a few numbers for each of those major accounts; the data were fully comprehensive and highly aggregated. The data were considered necessary for the staff to do the minimum analysis required to assess the macroeconomic performance and policies of the member countries to assist the Board in the conduct of its surveillance responsibilities.

At the second stage, that analysis could not be conducted with data solely at that wholly aggregated level, the Director continued. The disaggregation mentioned in the fourth paragraph--which caused Mr. Al-Jasser some concern--did not necessarily refer to the disaggregation of military data. It referred in the first instance to disaggregation of the higher-level data--fiscal expenditure--into expenditure in particular areas, one of which might be military. That level of disaggregation of data might well be necessary for the staff to do its job of providing a sufficient basis for the Board to conduct its surveillance responsibilities. For example, as illustrated by many staff reports, the staff could not come to the Board and show a budget deficit which had been increasing rapidly over the past several years and had an aggregate on expenditure and an aggregate on revenue and the deficit. He seriously doubted that those aggregates would be acceptable to the Board. The Board wanted to know the forces and pressures that were giving rise to that budgetary pattern.

The staff's recent examination of the documentation on many consultations had revealed that the Board had commented time after time on the pattern of a particular expenditure component, the Director observed. Frequently, that comment was on a military expenditure. The Board minutes were replete with such references in Directors' remarks and even in summings up reflecting the Board's consensus that the authorities would have difficulty reducing the budget deficit, because so much expenditure was devoted to the military and the authorities had given no indication that those military expenditures would be reduced. It had certainly been the practice of the Fund and the staff in providing information to the Board to go to that level of disaggregation.

The third level--the level reflected in the last paragraph--had no limits, because data would only be disaggregated that fully when the authorities had asked the staff to assist them with a particular kind of analysis beyond the basic macroeconomic analysis, the Director explained. For example, the analysis could be of a specific labor market problem derived from the downsizing of the military establishment. For that purpose, if certain disaggregated data were required, the authorities would need to make the data available if they wanted the analysis performed. However, the authorities exercised their own discretion, both in originating the request for the analysis and in deciding what data they would provide. In that connection, the staff could not require--nor would it want to require--that the authorities make certain data available. His earlier response to Mr. Al-Jasser's comment, combined with Mr. Filosa's suggestion, perhaps gave a better sense of the situation described in the third paragraph, which could say that "countries, when contemplating downsizing their military establishments, may wish to be assisted by the staff in assessing the possible effects of such downsizing on macroeconomic performance. In such cases, the authorities may wish to provide such data as would permit that detailed economic analysis." That expression would negate any presumption that the staff was putting any pressure on the authorities for data; the authorities' request for assistance was the sole reason for data to be disaggregated to that level.

There were presentational devices to protect sensitive information in instances of the kind raised by Mr. Finaish, in which a step increase in published debt data might enable an inference to be made about the size of a country's military establishment, the Director said. The important component for analysis and assessment in that context was clearly debt service and debt-service profiles over time, not necessarily the debt stock.

With reference to the discussion of performance criteria versus conditionality in the last sentence in the fourth paragraph, the staff had been trying to avoid using the word "conditionality" for a particular reason and, hence, had used "performance criteria," the Director of the Exchange and Trade Relations Department explained. The suggestion to insert the phrase about establishing conditions and objectives, including performance criteria, might well work in that context. The reason for avoiding the term

"conditionality" was the existence of an old decision about lending for the purposes of supporting military purchases.

The General Counsel said that one of the earliest decisions in the history of the Fund--a question of interpretation of the Articles that had been raised by the Board of Governors and put to the Executive Board in 1946--had been on whether a member of the Fund could use the Fund's resources to finance the purchase of armaments. After careful study, it had been concluded that a member was not allowed, under the Articles, to use the Fund's resources for the purchase of armaments. That decision had not been cited often, but it was still on the Fund's books. Therefore, if conditionality in the broad sense were referred to, it would imply that the Fund was changing its interpretation of the Articles, whereas the reference to performance criteria had a different effect. In other words, the prohibition on using the Fund's resources for the purchase of armaments could not be amended now except by a corrective interpretation, which was not being considered.

Mr. Arora remarked that he wondered why disaggregated, instead of aggregated, data were being emphasized. If a member country made only aggregated data available, it would not be used for military debt matters only. The emphasis of the discussion had been on military expenditure data. Currently, the staff could not say what level of disaggregation would be needed. Therefore, the phrase "performance criteria" suggested that the staff had something else in mind. He wondered why the staff was encouraging members to disclose their military expenditures and whether the staff did not want those disclosures to be connected to conditionality in any way.

The Director of the Exchange and Trade Relations Department said that there was no hidden agenda behind the last sentence in the fourth paragraph. In light of what the General Counsel had said, the staff was trying to cast a statement that would capture what had seemed to be the sense of the previous discussion that military spending should not become subject to conditionality in Fund arrangements. The staff was trying to convey that idea without running afoul of a general reference to conditionality that might cause problems in the context of the decision to which the General Counsel had referred. Instead of the word "conditionality," the staff had used the words "performance criteria" to indicate that there was no intent whatsoever to bring up the issue of military spending at that juncture, because, irrespective of intent, military spending would be subject to Fund conditionality and the use of its resources.

Mr. Clark remarked that he agreed with the Director of the Exchange and Trade Relations Department, but he wondered, given the current and previous discussions--and notwithstanding the current moment in history--what guidance the Board had given the staff that it had not had two weeks ago.

The Director of the Exchange and Trade Relations Department responded that the staff had gained insight from Directors' statements about their

views on military spending and about the appropriateness of attention to that issue on the broader political scene. If the changes in military spending that had been discussed were to take place, there would be important economic effects. In the context of the individual country studies and in the world economic outlook, the Fund should be alert to those changes; it should not make judgments, but it should take the macroeconomic effects of those changes into account.

With respect to the language on data deficiencies, he had hoped that, with the clarification that he had submitted earlier about the disaggregation that the staff was seeking and what he had said in his opening remarks, it would be evident that the burden of proof was on the staff when it sought greater disaggregation, the Director stated. If there was a data deficiency, the staff had to be able to show a need for the data when it came to the Board to complain. It would be incumbent on the staff to show that certain conclusions could not be made that were important to an assessment of the country's economic situation as part of a surveillance or program decision. For example, the staff could not give a five-year profile showing the prospects for external viability if it did not have reasonably complete debt and debt-service projections. He hoped that, with the current discussion, the Board would tell the staff that it should be more forthcoming in informing the Board when it did not have the basic minimum data required to provide the assessment, so that the Board could react in those particular cases.

The meeting was briefly recessed.

When the meeting was reconvened, a revision of the draft concluding remarks was circulated (see Annex II).

Mr. Mirakhor remarked that he had understood the Director of the Exchange and Trade Relations Department to have said immediately prior to the recess in reply to Mr. Arora that the level of disaggregation needed for the staff to proceed with its analysis should be left to the staff's discretion. Presumably, then, the criterion for deciding whether the data that the staff had received were deficient would likewise be left to the staff's judgment. He was prepared to agree to that step, except that it created an open-ended situation in which Directors with members concerned about national security would not know exactly what data the staff would be requesting. He wondered at what point in the consultation process the staff would know exactly what level of data aggregation they would be asking for, so that Directors could inform their authorities.

He had asked that question in the context of Syria, because it was the only concrete example Directors had, Mr. Mirakhor continued. He wondered whether the Fund would, in general, be asking for data during Article IV consultations at the same level of aggregation to do the same level of analysis as it had done as part of its consultation with Syria.

The Director of the Exchange and Trade Relations Department replied that it was not possible to list the data that might be requested in the sense of providing line items in a table. In that event, he had suggested a criterion for data requests. He had also suggested that the burden of proof in requesting data be effectively placed on the staff to demonstrate that the data were required for the analysis necessary to conduct surveillance. He had cited a pattern of military expenditures within a budget which drove expenditure patterns and he had referenced some cases. Syria was an example in which the level of disaggregation was linked to military spending as an aggregate line in the budget. That aggregate figure for military spending had then been related to total current expenditures.

Mr. Mirakhor said that he realized the constraints in trying to define the kind of data that was needed for individual countries, but he wondered whether Syria was a good model and whether the staff would report to the Board that the Syrian consultation had been affected by a data deficiency.

The Director of the Exchange and Trade Relations Department said that Syria served as a model insofar as there was a request for military expenditure and provision by the authorities for it, and military expenditure had been shown in the context of overall government expenditures. Syria was not a model from the point of view that on the external debt side a request had been made for comprehensive data that had not then been made available. He would not want to use Syria or, indeed, any other country as a model. The importance assigned to military expenditure within a country, and particularly changes in military expenditure that would affect macroeconomic performance, would be the driving force behind requests for data.

The staff had, in the context of its report for the Article IV consultations with Syria, reported--in a somewhat muted fashion--to the Board in the text on the external sector, the Director of the Exchange and Trade Relations Department remarked. That text contained a sentence that said that full information on external debt had not been provided, and that the missing information had been thought to involve debt on military accounts; data from other sources suggested that Syria's total external debt was higher and, therefore, that the external debt service was higher.

Mr. Mirakhor said that it would be helpful to recall where in the staff report for Syria (SM/91/185, 9/4/91) there was a reference to the military debt.

The Director of the Exchange and Trade Relations Department replied that page 18 of the staff report on Syria stated that "while comprehensive data on external debt and arrears were not available to the staff, it was quite likely that debt-service obligations falling due in 1991-93 were higher than indicated by the projections." It was his understanding there had been discussions with the authorities about the discrepancies in that data. The staff had concluded that the discrepancies had derived from an absence of external debt on military accounts. In many other instances

reflected in Board discussions when military expenditure per se had been identified the staff had been told that it was off budget--it had not been included in the budgetary accounts and had not then been provided in separate accounts to the staff. That information had been reported to the Board in the context of the staff reports.

Mr. Bonzom commented that, with respect to the draft concluding remarks, he particularly welcomed the deletion of the third sentence of the first paragraph in the revised text for the reason given by Mr. Goos when he had proposed its deletion and because it had not properly conveyed the important point made during the previous discussion that military spending per se should not be condemned.

Referring to the middle of the third paragraph of the revised draft concluding remarks--"These data should therefore encompass military transactions, even if not separately identified,"--Mr. Bonzom said that he wondered whether "these data" meant the whole succession of data mentioned in the previous sentence, including fiscal expenditures, international trade, and external assets. If that meaning was intended, he wondered whether saying "even if not separately identified" would not be considered a step backward as far as fiscal expenditures were concerned. He understood that the staff was already asking for the functional breakdown of fiscal expenditures. Therefore, he suggested using "preferably separately identified" instead.

Another welcome change was the deletion of the first part of the last sentence in the fourth paragraph, which had read "to the extent a member provides disaggregated data," Mr. Bonzom remarked. The previous discussion had not been not conclusive on what would happen if a country did not provide such data.

With respect to the final paragraph, he would not like to convey the impression that studies on the macroeconomic effect of the downsizing of military expenditures that was being contemplated or implemented in several countries would be done by the Fund only in the circumstances mentioned in that paragraph, Mr. Bonzom commented. Downsizing decisions might have significant macroeconomic consequences that should be included in the Article IV consultation for the country concerned or, as Mr. Peretz had mentioned, in working papers for cross-country comparisons and for analysis of the general problems raised by those new trends. He agreed with Mr. Prader that the Fund's role should be to help countries and the international community better assess and better implement policies to downsize military expenditures, in order that rational strategies would evolve in member countries and in the international community.

Mr. Arora said that he welcomed the clarification of what was meant by conditionality in the context of the revised draft concluding remarks. He wondered whether, because the word "conditionality" was not used, the words "performance criteria" and "benchmarks" could be added.



Mr. Finaish said that he wondered how the Board intended to use the concluding remarks in relation to the Interim Committee's discussion on global savings and productive use of scarce resources. If the Board reported solely on military spending, the Board would imply that it did not believe that there were other sources of unproductive spending, such as agricultural subsidies in industrial countries.

If the Board chose to report to the Interim Committee, he agreed with Mrs. Krosby and others that there were two issues--first, the broad issue covered in the first paragraph that military spending should be reduced together with its effect on saving and investment, Mr. Finaish stated. In the last sentence of the first paragraph of the revised draft concluding remarks, the Board had expressed the view that the objective was worthy, but did not pertain to the business of the Fund. That view should be expressed to the Interim Committee, because the issue was currently generating considerable speculation. The second issue, related to the question of data, was strictly a Fund issue. In its discussion of data and the references to Syria, the staff had made it clear that its objective was to obtain information on debt.

The last paragraph of the revised draft concluding remarks said that some countries that were contemplating downsizing their military establishments might approach the Fund for technical assistance, Mr. Finaish noted. In that event, the authorities would be prepared to provide data, and the Fund should provide them with technical assistance. Therefore any report to the Interim Committee should make some reference to other forms of unproductive spending and to the two issues, the data and the broader issue of military expenditure reductions and their effect on saving and investment. With respect to the latter, the Board had concluded that it was not covered by the mandate of the Fund.

The Director of the Exchange and Trade Relations Department noted that when the agenda item on global savings and the productive use of scarce resources had come up at the Board during the course of the discussion on the Interim Committee agenda, the question had been raised as to what the documentation for that agenda item would be. The Secretary had listed the concluding remarks from the current discussion, the trade paper that had been put out as background to the world economic outlook discussion, other world economic outlook documents, including the summing up from that discussion and the Managing Director's statement on the world economic outlook. All of those together would encompass information on subsidies and trade-related inefficiencies as part of the discussion on productive expenditure.

In the first paragraph of the revised draft concluding remarks, the staff had deleted the portion of the third sentence suggested by Mr. Goos-- "many Directors further noted that military spending places a heavy burden on the budgets of both industrial and developing countries and has the effect of diverting resources away from uses that could otherwise contribute to increased levels of savings and investment and higher output"--in light

of the fact that it had been somewhat repetitive of the information provided in the first sentence in particular, the Director explained. The first part of what had been the third sentence--"in the more recent discussion on Military Expenditure and the Role of the Fund"--had been combined with the next sentence beginning, "most Directors indicated that...." Mr. Finaish had suggested deletion of that sentence as well. The staff had not done so, partly because that sentence laid down an important marker, with the words "information about such expenditures may be necessary to permit a full and internally consistent assessment of the member's economic position and policies." The point about using information on a full and internally consistent basis would be, in the staff's view, useful to retain. There were no other changes to the first paragraph.

In the second paragraph, in light of the comments made in particular by Mr. Peretz, the phrase "a number of" at the beginning of the paragraph had been deleted, the Director of the Exchange and Trade Relations Department said. Otherwise, the first sentence remained the same. The entire second sentence had been deleted and replaced with the underlined text on the first page of the new version. That change primarily reflected a suggestion made by Mr. Peretz. It incorporated Mr. Evans's recommendation about the need for members' cooperation, which he had proposed be added at the end of the concluding remarks.

Mr. Mirakhor said that, with respect to the second part of the first sentence of the second paragraph, he wondered how many Directors were represented by the phrase "some others" as questioning the role of the Fund.

The Secretary replied that 12 or 13 Directors had favored a role for the Fund, and 8 or 9 Directors had questioned whether the Fund should have a role.

Mr. Posthumus said that he wondered whether it would help if the words "some others questioned the role of the Fund in this area" were replaced by "there were also questions about the extent of the role of the Fund in this area," or "others questioned the extent of the role of the Fund in this area," or "some questioned the extent of the role of the Fund in this area," or words to that effect that did not describe a specific number of people. That sentence described the major part of the discussion--the extent to which the Fund should collect and analyze military expenditure data.

Mr. Peretz suggested that Directors use Mr. Posthumus's first formulation. All Directors had questioned the extent of the Fund's role. Therefore, it would be preferable to say merely that there had also been questions about the extent of the role of the Fund, without saying "others."

Mr. Mirakhor responded that the question was a factual one of how many Directors had questioned the role of the Fund. If 12 Directors had seen a role for the Fund and 8 or 9 had not, then the description "some others" did not reflect what had happened in the Board. Neither Mr. Posthumus's nor

Mr. Peretz's suggestions got around that problem. There was concern about the role of the Fund, not the extent of the role.

Mr. Goos commented that Mr. Mirakhor's proposal would constitute a step backward. The Fund had a role and was playing it. Directors had heard repeatedly that information was collected by the Fund on military expenditures and that information was disclosed in staff documents to a varying degree. There was no question but that the Fund had a role to play. The formulation proposed by Mr. Peretz and Mr. Posthumus should accommodate Mr. Mirakhor's concern.

Mr. Mirakhor stated that he himself was not questioning whether the Fund had a role. He was merely talking about reflecting what had happened in the Board. He did not want to use divisive language. Directors had an obligation to reflect the Board discussion as accurately as possible. The words "some others" meant three or four Directors, but nine Directors had actually questioned the role of the Fund.

Mr. Goos noted that Mr. Mirakhor himself had said that he did not contest the fact that the Fund had a role. In that event, his view should be covered in the initial part of the first sentence in the second paragraph. The second part of the sentence only expressed concern about the extent of the Fund's role.

Mr. Mirakhor said that he disagreed that he had been included among those who had said that the Fund had a role. He was willing to support a compromise, but the sentence in question did not fully reflect the discussion.

Mr. Towe remarked that he sympathized with Mr. Mirakhor insofar as the statement in question did not seem to reflect accurately the discussion to that point. Specifically, it seemed to dichotomize Directors into those who saw a limited, albeit important, role for the Fund in the collection and analysis of data and those who questioned that role. Many Directors who had seen a role insofar as collection and a limited analysis of data also questioned the role of the Fund in that area. Therefore he proposed that--although he could certainly live with the suggestion of Mr. Posthumus and Mr. Peretz--the paragraph begin with a statement to the effect that, while many Directors questioned the role of the Fund in that area, many, or some Directors saw a limited, albeit important, role insofar as the collection and analysis of data were concerned.

Mr. Posthumus said that--before Directors divided into two groups--he suggested keeping the first part of the sentence, "while Directors saw a limited..." but then saying "there were many questions about the extent of the role of the Fund in this area."

The Acting Chairman commented that the words "some others" suggested that none of those who saw a limited role for the Fund had any questions

about its role. In fact, all speakers had raised questions about the Fund's role, although there had been differences in degree.

Mr. Arora remarked that what Mr. Mirakhor had said was factually correct. There had been a debate in which people had freely expressed ideas and asked questions without coming to any conclusion. However, at the end of the debate at the previous discussion and at the beginning of the current discussion, Directors had recognized that they had to come to a decision on how their discussion would be reflected in the concluding remarks. He supported Mr. Posthumus's suggestion. The concluding remarks could say that there were concerns about the Fund's role, but there was no need to refer to the extent.

Mrs. Krosby said that she wondered whether the word "reservations" encompassed more of that minority group, instead of the word "questions."

Mr. Kafka stated that the first sentence of the second paragraph had said what had, in effect, already been said in the ante-penultimate sentence of the preceding paragraph. Therefore, he proposed that that first sentence be eliminated, and the paragraph begin with the underlined sentence.

Mr. Goos remarked that he could support Mr. Kafka's suggestion. However, the whole second paragraph could be deleted, because Directors' objective in reviewing the draft concluding remarks was to find common ground on how to deal with the issue. If they could agree on the subsequent paragraphs, the new underlined sentence was unnecessary.

The Acting Chairman commented that if the whole paragraph were excised, the idea in the second underlined sentence that efforts to collect data from all members required their cooperation should be included elsewhere, because it had been suggested by various Directors.

Mr. Posthumus stated that he strongly supported the retention of the underlined sentences, but he could accept the deletion of the first three lines of the paragraph.

Mr. Goos said that he wondered what message was conveyed by the underlined sentences, which said that Directors had not been able to come to an agreement. Directors had to find a common ground.

Mr. Posthumus remarked that he discerned two messages in the underlined sentences. One message was the voluntary character of the cooperation of members, and the second was that the common ground consisted of the Fund's mandate in the Articles.

Mr. Peretz said that he agreed with Mr. Posthumus that the two underlined sentences were worth keeping; however, he supported the deletion of the paragraph's introductory sentence.

Mr. Mirakhor recalled that Mr. Peretz had noted the need to have a document for the Interim Committee. It was unrealistic to assume that in the Interim Committee all the representatives would be in favor of a role for the Fund. Likewise, the views of the authorities in member countries were reflected in the Board by their representatives. Those Directors who had seen no role for the Fund and had suggested that the debate belonged in another institution felt that the Fund had more important responsibilities to fulfill. In all fairness, the concluding remarks should say what happened in the Board. In that event, the third paragraph would bring credit to the Board for reaching a common ground. Such a message would be much stronger if the underlined sentence was retained.

Mr. Arora said that he had meant merely to confirm Mr. Mirakhor's position that although there earlier had been a division of views, since the beginning of the current discussion there had been a general feeling that Directors should try to minimize--to the extent that they could--their divergence in opinions. In addition, he had urged that the Board should not take a decision by head count. Therefore, the opening sentence in the second paragraph reflected, to some extent, what had happened in the Board. He agreed with Mr. Mirakhor that the underlined sentence should not be deleted; as Mr. Posthumus had suggested, it could be reworded. There had been concerns and many questions about the role of the Fund that indicated that the debate was not one-sided. Therefore, the underlined part of the revised text was important, too.

Mr. Fukui remarked that he preferred to retain all three sentences that were under discussion, because--as Mr. Arora had mentioned--they conveyed some sense of the Board discussion. Some favored a role for the Fund, whereas others had not.

Mr. Al-Jasser said that he agreed with Mr. Mirakhor, especially with respect to using "while Directors" in the first sentence, because "Directors" alone meant all Directors and was therefore not factually correct.

The Secretary said that, to reflect Directors' positions at the previous and the current discussions, the words "while many Directors saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending, a number of others," should be followed by either the wording in the revised draft concluding remarks or the proposal of Mr. Peretz or Mr. Posthumus.

The Director of the Exchange and Trade Relations Department commented that there did not appear to be two groups of opinion, one questioning the role of the Fund in the collection and analysis of military expenditure data and the other not questioning that role. Several Directors had pointed out that if there were two groups, Directors in both had concerns and uncertainties, because the staff could not explicitly define the Fund's activities in the collection and analysis of military expenditure data in a precise and

detailed manner. Therefore, using "some" and "others" missed the fact that all Board members had questioned the role of the Fund. The sentence in question could begin "most Directors saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending; however, the discussion elicited many questions about the extent of the role of the Fund in this area."

Mr. Mirakhor responded that Directors should not try to sweep under the rug the fact that there had been opposition to the role of the Fund. The Secretary's statement was satisfactory. If, in fact, "many" represented the 12 Directors who saw a limited role for the Fund and "a number of others" the 9 Executive Directors who had questioned the role of the Fund, then he preferred that those positions be accurately reflected in the concluding remarks.

Mr. Towe said that the overriding issue was the role of the Fund. Therefore, the first sentence of the second paragraph should say, "'many' or 'most' Directors questioned the role of the Fund in this area; nonetheless, many saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending."

Mr. Evans stated that he preferred the wording suggested by the Secretary. However, he wanted to make it clear that those words meant what they said: while a number of others questioned the role of the Fund in the collection and analysis of military expenditure data, they did not reject that role.

Mr. Filosa remarked that he strongly agreed with Mr. Evans. The sentence in question in the revised draft concluding remarks meant that some other Directors had claimed that the Fund had no role at all; that was not the sense that he had gotten from the current discussion, which was perhaps even more important than the previous one.

Mr. Posthumus said that if Directors were thought to be divided into two groups of opinion, he should be counted as part of both groups.

The Acting Chairman said that the second sentence should be changed to say "while many Directors saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending, a number questioned the role of the Fund in this area."

Mr. Goos asked for clarification of the meaning of the underlined sentence in the second paragraph. He understood the part that said that data had to be sought in the context of the Article IV consultation, but he did not understand the part that read: "Directors felt it important...to find a common ground that commands a wide degree of support. This common ground should be based on...." Those sentences implied that Directors had not yet reached a common ground, and that that task remained for the future. They would make sense only if they were changed to say that Directors had

felt it important to find a common ground, and that common ground had been agreed, or had been found in the context of the Fund's mandate.

Mr. Peretz said that Directors had achieved that common ground, and those sentences were the lead-in to the description of that common ground. The concluding remarks had begun with a description of what had happened at the meeting and then had moved to the conclusions that Directors had drawn.

The Acting Chairman suggested that Directors proceed to consider the remaining paragraphs--beginning with the third paragraph--after which he hoped that Mr. Peretz's interpretation would be seen to be correct, so that they would not have to revisit the second paragraph.

The Director of the Exchange and Trade Relations Department recalled that Mr. Fukui had advised that the data must be transparent. In order to be transparent, the data must possess certain qualities--which were described in the last sentence of the third paragraph--namely, comprehensiveness, comparability, and timeliness.

Mr. Posthumus said that he wondered what the data were to be comparable with.

The Director of the Exchange and Trade Relations Department explained that comparability meant that the same item of data would be classified identically, using a common definition across countries. Hence, the same item in different countries' tables would have the same meaning. There were standards laid out in Government Finance Statistics that defined data, so that such comparability was possible.

Mr. Goos noted that the sentence in the middle of the third paragraph stated that "these data should therefore encompass military transactions" and added "even if not separately identified." He wondered whether that addition was needed, because it was inconsistent with the last sentence in the paragraph, which said that the Fund should enhance its work to improve the comprehensiveness and comparability of such data. Those figures were separately identified, if only in Government Finance Statistics.

The Director of the Exchange and Trade Relations Department replied that that sentence referred to military transactions in the context of a paragraph that was establishing the bare minimum of the most aggregated data that could be required. There could well be circumstances in which military transactions did not need to be separately identified. For example, in the debt statistics, military expenditure statistics did not need to be separated in all cases for analytical purposes. The sentence meant that even if those military expenditures had not been entered as separate line items, they must be part of the sum rather than excluded as off-budget items or not reflected in the balance of payments.

In the fourth paragraph, two changes had been made to deal in part with the point raised by Mr. Al-Jasser on the interpretation of the words "such additional," the Director said. The fourth sentence had been rephrased to read: "The staff will continue to request a breakdown of government expenditures, but still at a highly aggregated level, in the context of Article IV consultations...." The sentence then continued as it had in the original draft. That reference, then, parenthetically, to data at a highly aggregated level, permitted the deletion of what was the subsequent sentence in the original draft, "even in these cases, however, it would be expected that the data required would be at a highly aggregated level."

There had been several suggestions, including one by Mr. Arora, to delete five lines in the original text, starting with "however, if data deficiencies....," the Director of the Exchange and Trade Relations Department recalled. Subsequently, another suggestion by Mr. Filosa went some way to meeting Mr. Arora's concern and resulted in the redrafting which referred to the fact that, in the case of data deficiencies, "these facts would be brought to the attention of the Board in the manner in which such data deficiencies are normally so reported." There was no specific reference to military expenditure data deficiencies; rather, data deficiencies should be reported no matter where they occurred.

Mr. Kafka remarked that Mr. Filosa's suggestion had been helpful, but Mr. Arora could probably be helped even more if, after the "however" that began the sixth sentence, the remainder of the sentence was deleted and replaced by the words "any data deficiencies would be reported in the way in which this is normally done."

Mr. Evans said that it might help Mr. Arora if the word "however" in that same sentence were dropped, because the first sentence referred to voluntary cooperation, and "however" introduced a note of qualification.

Mr. Arora responded that he agreed with Mr. Evans. The third paragraph of the revised draft concluding remarks said that "in those instances when inconsistencies in data suggested significant reporting gaps, Fund staff has informed the Board and supplemented data from the authorities to the extent possible with data from other sources." That statement made it clear that the staff's practice was to report data deficiencies. The fourth paragraph stated that "the staff will continue to rely on the voluntary cooperation of the authorities in the submission of data. Any data deficiencies will be reported to the Board in the normal course." The staff would then have fulfilled its responsibility, and the Board would do what it liked with the data.

The Director of the Exchange and Trade Relations Department said that those sentences had been included in order to explain the implications of a data deficiency.



Mr. Filosa stated that he agreed with Mr. Evans. In terms of the meaning that was conveyed by the sixth sentence in the fourth paragraph, Mr. Evans's suggestion was the best way to deal with Mr. Arora's concerns, because the sentence defined data deficiencies as major deficiencies that impaired the surveillance exercise. Minor omissions would not be reported for that purpose.

The Acting Chairman suggested dropping the "however" at the beginning of that sixth sentence and keeping the remainder of the sentence essentially as it was.

Mr. Arora remarked that he had not been questioning the intention of the staff in its suggestion that only those deficiencies that had a bearing on macroeconomic performance, and consistency and sustainability of policy should be reported. Rather, there was a consensus that the reporting by the staff of significant data deficiencies should be done on a more methodical and systematic basis than in the past. The Board should avoid giving the impression that it suspected that members would not cooperate with the Fund and that it was holding something up its sleeve to deal with that situation. The practice of reporting data deficiencies to the Board had been mentioned earlier in the concluding remarks. It could be repeated that a data deficiency having a bearing on a member's economic position and prospects would be brought to the notice of the Board in the normal manner, but the idea that the Board consider the implications of the deficiencies for the conduct of its surveillance responsibilities should be dropped. That was stating the obvious. If the Board found a serious deficiency, it would guide the staff on how it wanted to proceed. As the sentence now stood, it might give the impression that the Board intended to use its power to bar members. It was important that the Board protect the relationship between the Fund and its members.

The Acting Chairman explained that, as the Director of the Exchange and Trade Relations Department had indicated, the sixth sentence had been included to give some confidence to those Directors who had had the most difficulty with the fourth paragraph. If those Directors were prepared to go along with Mr. Arora's proposal, he would suggest that they shorten the sentence, because the record of the discussion would make clear the meaning of "normally so reported." Accordingly, the new sentence would read: "Data deficiencies would be brought to the attention of the Board in the manner in which such data deficiencies are normally so reported."

The Director of the Exchange and Trade Relations Department recalled that the last sentence of the fourth paragraph in the original draft concluding remarks had provoked comments concerning conditionality. It had been simplified by the deletion of what had been the preamble of the sentence in the original version, namely, "to the extent a member provides disaggregated data"; currently, it began "Directors agreed that data on military expenditures...." A suggestion had also been made to add to the

same sentence the phrase "for establishing performance criteria or benchmarks under Fund arrangements."

Mr. Kafka commented that that wording would not fully meet what Mr. Evans had had in mind, because it could still become the basis for prior conditions. He suggested, instead, that it say "Directors agree that data...should not serve as a basis for establishing performance criteria or similar provisions."

Mr. Towe observed that data on military expenditures could be used to calculate financial flows, which in turn would then feed into performance criteria. Therefore, the text referred to military expenditures, not data on military expenditures. In other words, the text meant that there should be no conditionality on the level of military expenditures, not that data should not be used.

The Director of the Exchange and Trade Relations Department remarked that Mr. Towe seemed to be proposing to exclude the words "data on."

The General Counsel stated that, with the suggestion by Mr. Kafka, the final sentence could read: "...for establishing performance criteria or similar conditions on the use of Fund resources." That would include preconditions.

Mr. Kafka commented that the General Counsel had objected to the use of the word "conditions."

The General Counsel replied that his objection was to the use of the term "conditionality." In a broad sense, conditionality in the Fund--not conditions as proposed in the sixth sentence of the fourth paragraph--could be taken to include all the limitations on the use of Fund resources. In an even broader sense, it could include the concept of benchmarks.

Mr. Arora supported Mr. Filosa's recommendation that the words "Fund arrangements" be retained, because that phrase included a rights accumulation program, which was a monitored program.

The General Counsel explained that a rights accumulation program, or rather the Fund's decision endorsing the program, was not an arrangement in the technical sense. Moreover, if the text were to read "under Fund arrangements," then preconditions would be excluded, because preconditions were not part of an arrangement, but precursors to it. He wondered how important the rights approach was in the case at hand. It could be noted in the record of the current meeting that benchmarks and other forms of conditions that were not directly linked to the use of Fund resources would be included in that formulation. It became cumbersome to spell out everything.

Mr. Filosa said that his only intention had been to find the proper way to ensure that all arrangements were covered by the provision in the last

sentence of the fourth paragraph, without making a cumbersome sentence. The sentence suggested by the General Counsel excluded some important Fund programs.

The General Counsel responded that, at the end of the sentence, after the reference to the use of Fund resources, the phrase "or under the rights approach" could be added.

Mr. Posthumus said that he understood the rights accumulation programs to allow countries for which they had been approved not to repay the old outstanding arrears. Therefore, they were permitted to use Fund resources.

The General Counsel replied that the Board had not decided that, under the rights approach, there was a postponement in repurchase obligations. The member remained in arrears. The rights approach did not authorize the member not to discharge its obligations. The only difference was that the Fund was not taking action.

Mr. Filosa remarked that what was important was to have a sentence that covered all kinds of programs agreed with the Fund.

The Director of the Exchange and Trade Relations Department suggested the text read: "...basis for establishing performance criteria or similar conditions associated with Fund-supported programs."

As to the fifth paragraph, the Director said most of the suggested changes had been discussed at the previous session. The first sentence in particular had been adjusted at the suggestion of Mr. Filosa to make it more general and had enabled the deletion of what had been the third sentence, making specific reference to Eastern Europe, Central America, and some industrial countries. Currently, it merely said that any countries, when contemplating downsizing, might wish assistance. The first two sentences now showed quite clearly that the Fund was purely responding to requests by authorities who were undertaking military downsizing exercises.

The penultimate sentence of the revised draft was identical to the last sentence in the original draft, the Director of the Exchange and Trade Relations Department stated. After that sentence, a new one had been added to attempt to capture the idea of retaining an indication that the Fund would do cross-country or other studies in the context of such undertakings as the world economic outlook and its annexes.

Mr. Peretz suggested that the last sentence be made a separate paragraph, because it was not related to the rest of that paragraph.

Mr. Evans said that he had one question concerning the second paragraph. In the final sentence of that paragraph, he had read that reference to the common ground in the same sense as Mr. Peretz. It was implicit in the way that that sentence was formulated that what followed represented

common ground. However, he presumed that it was also implicit that, in agreeing to that common ground, Directors made the judgment that that common ground was based on the Fund's mandate in the Articles. Before he gave his assent, he would like the General Counsel's assurance that such was the case.

The General Counsel said that he agreed that the concluding remarks covered the three aspects under the Articles whereby the Fund could obtain information from its members, namely, the cases--particularly surveillance--where the Fund needed to obtain information necessary to perform one of its functions; technical assistance policy advice, which was covered by the first part of the last paragraph; and the Fund in its role of a center of information in the collection of data, which was covered in the last sentence at the end of the last paragraph. Mr. Evans had said that the Executive Board could clarify the statement contained in the last sentence of paragraph 2 by replacing "this common ground should be based on the Fund's mandate" with "this common ground based on the Fund's mandate in the Articles can be described as follows." The latter alternative would reflect the fact that the rest of the remarks was only an elaboration of what the Fund was authorized to do under the Articles.

Mr. Arora remarked that, given what Mr. Peretz had said and what the General Counsel had just confirmed, the last sentence said that the common ground had been achieved under the Fund's mandate, and the sentence did not need to be changed.

The Acting Chairman made the following concluding remarks:

During the discussions on the World Economic Outlook, Directors touched on the issue of military spending in the context of the need to raise global savings and to help meet new investment demands. The scale of global resources devoted to military spending--estimated at nearly 5 percent of world GDP--underscores its importance. In the more recent discussion on Military Expenditure and the Role of the Fund, most Directors indicated that as military expenditures can have an important bearing on a member's fiscal policy and external position, information about such expenditures may be necessary to permit a full and internally consistent assessment of the member's economic position and policies. At the same time, Directors emphasized that national security, and judgments regarding the appropriate level of military expenditures required to assure that security, were a sovereign prerogative of national governments and were not in the domain of the work of the Fund.

While many Directors saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending, a number questioned the role of the Fund in this area. Since the collection of data from all members in the context of

Article IV consultations requires the cooperation of members, Directors felt it important, in light of the diverse views expressed during this meeting, to find a common ground that commands a wide degree of support. This common ground should be based on the Fund's mandate in the Articles.

In the context of the Fund's surveillance responsibilities, the staff needs to request of members certain data to provide the analytic basis for an effective assessment of members' macro-economic policies. At a minimum and for all members, aggregate data which include fiscal expenditures (including off-budget accounts), international trade, and external assets and liabilities, must be reported fully to the Fund. These data should therefore encompass military transactions, even if not separately identified. It has been the policy and practice of the Fund staff to seek comprehensive macroeconomic data for this purpose. In those instances when inconsistencies in data suggested significant reporting gaps, Fund staff has informed the Board and supplemented data from the authorities to the extent possible with data from other sources. Most Directors agreed that the Fund staff should enhance its work to improve the comprehensiveness, comparability, and timeliness of such data reported by authorities.

As military spending is a highly sensitive area, however, several Directors expressed concern about the degree of data disaggregation that might be requested by the staff. In the past, the staff has generally requested, or been offered by authorities of member countries, more detailed information on the breakdown of government expenditures, either on a national or fiscal accounts basis, which have been part of the documentation in staff reports. Such disaggregation, say, as between consumption and capital items, may be necessary in order fully to assess growth prospects and external viability. The staff will continue to request a breakdown of government expenditures, but still at a highly aggregated level, in the context of the Article IV consultation process in order to assess the consistency and sustainability of a member's policies. The staff will continue to rely on the voluntary cooperation of the authorities in the submission of data. Data deficiencies, which were thought to impair the ability to assess a member's economic position and prospects and to conduct meaningful policy discussions, would be brought to the attention of the Board in the manner in which such data deficiencies are normally so reported. Directors agreed that data on military expenditures should not serve as a basis for establishing performance criteria or similar conditions associated with Fund-supported programs.

Countries, when contemplating downsizing their military establishments, may wish to be assisted by the staff in assessing the possible effects of such downsizing on macroeconomic performance. In such cases, the authorities may wish to provide such data as would permit more detailed economic analysis and facilitate economic policy discussions. The Fund staff would work closely with Bank staff in these cases on the structural issues associated with shifting domestic resources to other uses.

The macroeconomic effects of military spending could also be analyzed from a regional and global perspective in the world economic outlook.

#### DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/91/137 (10/2/91) and EBM/91/138 (10/2/91).

#### 2. KOREA, AND SPAIN - ARTICLE IV CONSULTATIONS - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, the Executive Board agrees to extend the period for completing the next Article IV consultation with Korea and Spain to the dates indicated in EBD/91/277.

Decision No. 9838-(91/138), adopted  
October 2, 1991

3. PAKISTAN - EXCHANGE SYSTEM

The approval for retention by Pakistan of the exchange restriction and multiple currency practice arising from the imposition of a fee at the time of opening the letter of credit or of payment for imports is extended until December 31, 1991, or the date of approval of the third annual arrangement under the structural adjustment facility by the Executive Board, whichever is earlier. (EBD/91/277, 9/30/91).

Decision No. 9839-(91/138), adopted  
October 2, 1991

APPROVED: April 2, 1992

LEO VAN HOUTVEN  
Secretary

ORIGINAL DRAFT CONCLUDING REMARKS OF THE DISCUSSION  
ON MILITARY EXPENDITURES AND THE ROLE OF THE FUND  
AT EBM/91/134 - SEPTEMBER 27, 1991

During the discussions on the World Economic Outlook, Directors touched on the issue of military spending in the context of the need to raise global savings and to help meet new investment demands. The scale of global resources devoted to military spending--estimated at nearly 5 percent of world GDP--underscores its importance. In the more recent discussion on Military Expenditure and the Role of the Fund, many Directors further noted that military spending places a heavy burden on the budgets of both industrial and developing countries and has the effect of diverting resources away from uses that could otherwise contribute to increased levels of savings and investment and higher output. Most Directors indicated that as military expenditures can have an important bearing on a member's fiscal policy and external position, information about such expenditures may be necessary to permit a full and internally consistent assessment of the member's economic position and policies. At the same time, Directors emphasized that national security, and judgments regarding the appropriate level of military expenditures required to assure that security, were a sovereign prerogative of national governments and were not in the domain of the work of the Fund.

While a number of Directors saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending, some others questioned the role of the Fund in this area. In light of these diverse currents in the views of Directors, it is important to find common ground based on the Fund's mandate in the Articles as well as on past practice.

In the context of the Fund's surveillance responsibilities, the staff needs to request of members certain data to provide the analytic basis for an effective assessment of members' macroeconomic policies. At a minimum and for all members, aggregate data which include fiscal expenditures (including off-budget accounts), international trade, and external assets and liabilities, must be reported fully to the Fund. These data should therefore encompass military transactions, even if not separately identified. It has been the policy and practice of the Fund staff to seek comprehensive macroeconomic data for this purpose. In those instances when inconsistencies in data suggested significant reporting gaps, Fund staff has informed the Board and supplemented data from the authorities to the extent possible with data from other sources. Most Directors agreed that the Fund staff should enhance its work to improve the comprehensiveness and timeliness of such data reported by authorities.

As military spending is a highly sensitive area, however, several Directors expressed concern about the degree of data disaggregation that



might be requested by the staff. In the past, the staff has generally requested, or been offered by authorities of member countries, more detailed information on the breakdown of government expenditures, either on a national or fiscal accounts basis, which have been part of the documentation in staff reports. Such disaggregation, say, as between consumption and capital items, may be necessary in order fully to assess growth prospects and external viability. The staff will continue to request such additional information in the context of the Article IV consultation process in order to assess the consistency and sustainability of a member's policies. Even in these cases, however, it would be expected that the data required would be at a highly aggregated level. The staff will continue to rely on the voluntary cooperation of the authorities in the submission of data. However, if data deficiencies were thought to impair the ability to assess a member's economic position and prospects and to conduct meaningful policy discussions, then these facts would be brought to the attention of the Board in the staff report; it would be for the Board to consider the implications of such deficiencies for the conduct of its surveillance responsibilities. To the extent a member provides disaggregated data, Directors agreed that such data should not serve as a basis for establishing performance criteria under Fund arrangements.

Many countries are currently contemplating downsizing their military establishments and the question of the possible effects of such downsizing on macroeconomic performance has arisen in the context of discussions with the staff. In such cases, the authorities would presumably be willing to provide such data as would permit more detailed economic analysis and facilitate policy decision. These issues are already being faced in Eastern Europe, Central America, and some industrial countries that have begun efforts to reduce resources devoted to the military. The Fund staff would work closely with Bank staff in these cases on the structural issues associated with shifting domestic resources to other uses.