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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/113

3:00 p.m., September 4, 1992

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

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
	B. R. Fuleihan, Temporary
G. K. Arora	L. E. N. Fernando
	Wei B.
	Deng H., Temporary
	K. J. Langdon, Temporary
T. C. Dawson	Q. M. Krosby
	J. Prader
	B. Szombati, Temporary
E. A. Evans	Y.-H. Lee, Temporary
R. Filosa	
	M. B. Chatah, Temporary
	J. A. Solheim
H. Fukui	N. Tabata
	S. Shimizu, Temporary
	B. Esdar
	S. von Stenglin, Temporary
J. E. Ismael	T. Sirivedhin
A. Kafka	J. C. Jaramillo
	F. A. Quirós, Temporary
	I. Martel
	O. Kabbaj
	L. J. Mwananshiku
D. Peretz	J. Dorrington
G. A. Posthumus	
C. V. Santos	
A. Torres	R. Marino
A. Végh	A. G. Zoccali

L. Van Houtven, Secretary and Counsellor
T. S. Walter, Assistant
B. R. Burton, Assistant

Also Present

Development Committee: P. Mountfield, Executive Secretary; T. S. Kivanç. African Department: M. Touré, Counsellor and Director; J. A. Clement. Central Asia Department: U. Baumgartner. European I Department: C. Atkinson, G. Bélanger, P. R. Masson, S. Oberg. External Relations Department: S. J. Anjaria, Director; R. R. Brauning, A. Mountford, J. D. Simpson. Legal Department: W. E. Holder, Deputy General Counsel; R. Munzberg, Deputy General Counsel; J. L. Hagan, Jr., J. K. Oh, K. Sono. Policy Development and Review Department: J. T. Boorman, Director; J. Ferrán, Deputy Director; T. Leddy, Deputy Director; J. J. Clark, C. V. A. Collyns, R. Danielsen, H. M. Flickenschild, P. Gajdeczka, S. Ishii, S. Kastner, M. G. Kuhn, K. H. Lee, K. E. Parker, R. K. Rennhack, P. J. P. Symczak. Research Department: M. Mussa, Economic Counsellor and Director; M. Goldstein, Deputy Director; J. Baras, J. M. Barrionuevo, D. T. Coe, R. A. Feldman, R. P. Ford, S. J. A. Gorne, A. Hoffmaister, M. S. Kumar, F. Larsen, G. J. Schinasi. Secretary's Department: J. W. Lang, Deputy Secretary; J. M. Boughton, R. S. Franklin, A. Jbili, A. Leipold. Southeast Asia and the Pacific Department: K. Saito, Director; P. J. Winglee. Treasurer's Department: S. I. Fawzi, O. Roncesvalles, S. M. Thakur, M. A. Wattleworth. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Office of the Managing Director: B. P. A. Andrews, Personal Assistant to the Managing Director; J. Prust, Advisor. Advisors to Executive Directors: J. M. Abbott, P. Bonzom, R. Meron, M. Nakagawa, J.-C. Obame, B. A. Sarr, N. Toé, A. Törnqvist. Assistants to Executive Directors: D. A. Barr, B. Bossone, J. H. Brits, N. A. Espenilla, Jr., H. Golriz, M. E. Hansen, P. K. Kafle, V. Kural, W. Laux, G. J. Matthews, F. Moss, J. A. K. Munthali, T. P. Thomas, R. Thorne.

1. WORLD ECONOMIC OUTLOOK

The Executive Directors continued from the previous meeting (EBM/92/112, 9/4/92) their consideration of a staff paper on prospects and policy issues related to the world economic outlook (EBS/92/127, 8/6/92), together with a statistical appendix (SM/92/154, 8/7/92) and annexes providing supplementary background material (SM/92/156, 8/7/92). They also had before them charts and tables on exchange rate developments (EBD/92/189, 8/31/92).

The Chairman made the following summing up:

The discussion of the World Economic Outlook, as in the past, covered a wide range of important issues. Our discussion highlighted not only the high degree of uncertainty that policymakers are facing in the period ahead, but also the importance--more than ever, at a time when recovery needs to be consolidated--of what have been for some time the basic tenets of our medium-term strategy.

1. Industrial countries' prospects and policies

The staff's revised assessment of economic prospects points to a gradual recovery of world economic growth during 1992 and 1993. In the discussion of the outlook for industrial countries, Directors thought that the risks were predominantly on the downside. Many speakers underlined the continued sluggishness of growth in virtually all of the industrial countries. Directors were unanimous in stressing the need for confidence-building policy responses, particularly a rapid and successful conclusion of the Uruguay Round. Many speakers also called for stronger efforts to coordinate policies among the major countries in view of the present tensions in financial and foreign exchange markets.

It was acknowledged by many Directors that an impediment to a stronger recovery in North America and the United Kingdom, and a downside risk in Japan, was the apparent need for further private sector financial adjustments to unwind the effects of earlier speculative excesses in real estate and other asset markets. Lower interest rates had helped to offset the impact of large declines in asset prices, but Directors stressed that it remained uncertain how long the adjustment process would take. It was emphasized that further research was needed to elucidate better the linkages between asset market developments and the real economy. With the exception of Japan, Directors generally felt that countries had little or no scope to mitigate the effects of these balance sheet adjustments through fiscal and monetary policies. Directors commended the Japanese authorities for the recently announced supplementary policy measures to stimulate the economy and help alleviate the fragile conditions prevailing in Japan's financial system.

Directors noted that important progress had been made in reducing inflation in industrial countries. Some Directors expected continued progress while others noted that further reductions in inflation would require structural reforms, particularly in labor markets. Noting that inflation in the group of major industrial countries was still above 4 percent in 1991, Directors emphasized that the goal of monetary policy over the medium term had to remain the achievement of price stability. It was also noted that the interpretation of the monetary aggregates in many countries had been complicated recently by the process of deregulation and liberalization of financial markets, and by the special situation created by the unification process in Germany. Several Directors felt that, to prevent the costly speculative excesses of the 1980s from occurring again and to guide monetary policy more effectively, closer attention should be paid to a broader set of economic indicators, including exchange rate and asset market developments. Directors also thought that, to fully realize the potential gains from financial liberalization, governments should strengthen prudential supervision of financial institutions.

Commenting on recent exchange market instability, Directors noted the significant depreciation of the dollar against the deutsche mark and the yen, and the tensions within the exchange rate mechanism of the European Monetary System (EMS). Directors stressed the importance that key countries should attach to the international implications of their policy actions. In that context, they expressed concern about the effects of the stance of U.S. monetary policy on the weakening of the dollar in exchange markets. The stance of German monetary policy also, while appropriate at the present for that country, was seen by most Directors to have had adverse effects on activity in the rest of Europe, and to have contributed to strains within the EMS. Directors urged that any widening of the interest rate differential between these two countries be avoided through strengthened coordination of policies.

Directors emphasized the medium-term gains that could be expected from fiscal consolidation and expressed concern at the size and the persistence of the structural deficits in some countries. This situation highlighted the missed opportunity for budget consolidation during the long expansion of the 1980s and underscored the urgent need to adopt policies that would reduce structural deficits. In the minds of many Directors, this applied particularly to the United States, where an early and credible package of measures to reduce the structural deficit, including both expenditure cuts and revenue enhancements, was urgently called for. Such measures would reduce real long-term interest rates, which would mitigate short-term contractionary effects. A credible set of policy initiatives was also seen as essential to boost business and consumer confidence, which would also help to reduce the short-term impact of deficit reduction on aggregate demand.

Directors observed that fiscal consolidation was also required in several countries in the European Community where present tendencies were unsustainable in the longer run. Consolidation was required not only to meet the convergence criteria agreed at Maastricht, but also to promote economic growth. In this regard, Directors welcomed the recent and urgently needed deficit reduction plan in Italy, although some noted that this initiative would require many concrete measures that remained to be formulated and implemented. Many Directors expressed concern that the fiscal deficit in Germany, while understandable in the context of unification, was placing too great a burden on monetary policy to contain inflation.

Directors urged the intensification of structural reform efforts, particularly in Europe. They noted the link between labor market rigidities and the high rates of unemployment and urged that priority be given to labor market reforms that could help to reduce chronically high unemployment in many countries. Many Directors expressed grave concern over the failure to conclude the Uruguay Round, which could result in increased barriers to trade and a significant loss in world output and welfare. They noted the growing emphasis on regional trade arrangements and urged countries to ensure that such trade agreements would not threaten but enhance the multilateral trading system. Directors stressed the need for the industrial countries to continue to reduce trade barriers to imports from the developing countries and from the former centrally planned economies to provide the market access that would be vital to their economic development. The need to reduce export subsidies was also stressed.

2. Economic prospects and policy issues in developing countries

Directors welcomed the improved economic performance in a growing number of successfully adjusting developing countries, particularly in the Western Hemisphere, Asia, and the Middle East, and they noted the positive contributions of the Bretton Woods institutions and, more broadly, the international community. They emphasized that the impact of weak global economic growth and commodity prices had been mitigated by the implementation of sound policies, together with the positive impact of lower international interest rates and of debt restructuring agreements on debt-servicing costs. Nevertheless, many speakers stressed the fragility of growth prospects for the developing countries, pointing to the assumption of the full implementation of announced adjustment policies underlying the staff's projections. It was noted that the resolve of these countries would continue to be tested, given the relatively weak international environment.

Many Directors expressed particular concern over the continued weakness of economic activity in Africa, attributable in part to the drought in southern and eastern Africa. In addition, unlike in other regions, high debt and debt-service ratios remained a serious impediment to stronger growth. In support of improved policies, some Directors felt that additional financing would be required to maintain stabilization and reform efforts now under way. International assistance was also essential to help alleviate the severe impact of the drought in the affected countries.

Many speakers commended the progress in liberalizing financial markets in a large number of developing countries, which, coupled with an improved regulatory framework, helped to mobilize savings and raise efficiency. Some Directors observed that the improvement in economic performance in some developing countries had been associated with substantial capital inflows and a reversal of capital flight. They viewed these increased flows as evidence of improved confidence in, and prospects for, economic performance in these countries. However, the increased capital flows would require policy adjustments to prevent overheating and reduce the adverse impact that these flows might have on real exchange rates and trade performance. Directors observed that budget imbalances had been reduced in many developing countries and emphasized the importance of further consolidation, especially by reducing unproductive outlays in areas such as military expenditures and subsidies. This prescription was also considered valid for a number of industrial countries. Directors welcomed the dismantling or reduction of trade barriers by many developing countries, especially in Latin America.

Directors noted the improvement in the debt situation of many developing countries, including recent progress toward bank debt restructuring and the re-entry of some debtor countries into private capital markets; a number of countries, however, had not yet found solutions to their debt problems.

3. Former centrally planned economies

Directors praised the progress achieved by the countries of Central and Eastern Europe in reforming their economies. They observed that, in some Eastern European countries, there were indications that stabilization and structural reform efforts were beginning to bear fruit, with evidence that the sharp contraction in output in recent years might be coming to an end. But they also stressed that the situation remained fragile and uncertain.

Directors acknowledged the efforts in most of the reforming countries to speed up privatization and put in place the legislative and institutional framework of a market economy, including the establishment of property rights. They emphasized the need for accountability, particularly in those enterprises remaining under state ownership, and the need for enterprises to enforce hard budget constraints to avoid a further buildup of interenterprise arrears. Several speakers stressed that the development of market-oriented institutions was a daunting task, however, and that the current underdeveloped nature of these institutions risked undermining the macroeconomic stabilization effort.

With respect to the outlook for the Russian Federation and the other states of the former Soviet Union, Directors underlined the close interdependence between macroeconomic stabilization and structural reforms. Many Directors stressed the critical importance of enhancing the supply response, particularly from the emerging private sector, so that macroeconomic stabilization policies and efforts to keep inflation under control could be facilitated by the rapidly rising availability of goods and services. They were encouraged by recent initiatives to accelerate the privatization of small enterprises and initiate the commercialization of large state enterprises and urged the authorities to stay the course of economic reform. A strengthening of monetary and fiscal policies was also crucial in order to contain and reduce inflation. Indeed, comprehensive programs of adjustment and reform were essential to promote confidence in government policies domestically and abroad. Directors emphasized the need for monetary cooperation among countries that chose to remain in the ruble area to help stabilize the value of the ruble in foreign exchange markets and reduce inflationary pressures.

Finally, a critically important point that was stressed by many Directors with regard to economies in transition was the need for comprehensiveness and mutual reinforcement of macroeconomic and structural policies and institution building. Directors emphasized that the need was not, of course, to render the pace of macroeconomic stabilization more gradual, in view of a slow pace of systemic reform, but, on the contrary, to speed up structural and systemic transformation to allow for a more rapid and sustainable recovery of growth. Referring to earlier experiences, several speakers pointed out that such a strategy could allow for well-targeted and transitory schemes to support the adaptation of viable enterprises to market conditions.

Mr. Dawson said that it would be helpful if the staff could present in tabular form its revised world economic outlook forecasts. The latest projections for Germany would be of particular interest.

The summing up had accurately noted that "the interpretation of the monetary aggregates in many countries had been complicated recently by the process of deregulation and liberalization of financial markets," Mr. Dawson continued. It was important that the text of the world economic outlook document--which seemed to suggest in places that the pace of deregulation had been too fast--should agree with the language used in the summing up.

The Chairman said that the staff would distribute as quickly as possible the revised world economic outlook forecasts.

Mr. Fukui stated that, as he had remarked previously (at EBM/92/110, 9/2/92), his authorities felt very strongly that Japan's budgetary situation could properly be assessed only on a central government basis. Accordingly, budgetary projections made on any other basis should not be published.

2. SAN MARINO - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered the report of the Committee on Membership for the Republic of San Marino (EBD/92/198, 9/3/92) recommending the approval of a draft report and a draft membership resolution for submission to the Board of Governors for a vote at the 1992 Annual Meeting.

The Executive Board took the following decision:

> The Executive Board adopts the Report to the Board of Governors on Membership for the Republic of San Marino in the Fund set forth in EBD/92/198 (9/3/92) and approves the Resolution appended thereto as Attachment I for submission to the Board of Governors for a vote during the 1992 Annual Meeting; provided that, in the event the requirements set forth in paragraph 3 of Board of Governors Resolution No. 45-2 on the Ninth General Review of Quotas have been met prior to the date on which the Board of Governors votes on the proposed Resolution, the text of the proposed Resolution shall be the text appended thereto as Attachment II.

Decision No. 10123-(92/113), adopted
September 4, 1992

3. RULES FOR 1992 REGULAR ELECTION OF EXECUTIVE DIRECTORS - REPORT AND DRAFT RESOLUTION

The Executive Directors considered the report of the Committee on Rules for the 1992 Regular Election of Executive Directors (EBD/92/200, 9/4/92).

Mr. Arora noted that the Committee had agreed that, after the new Board had been constituted, it should undertake a fundamental review of its size, structure, and functioning.

Because the Board of Governors would not be able to vote on the rules for the election of Executive Directors until the first day of the Annual Meeting, Mr. Arora added, the deadline for nominating candidates had been postponed from 12:00 noon until 5:00 p.m. of that day.

The Chairman said that he wished to express his heartfelt gratitude to Mr. Arora, who, as Chairman of the Committee, had brought its work to a successful conclusion. In light of the Fund's new size and responsibilities, the reassessment of the size, structure, and functioning of the Executive Board that the Committee had recommended was particularly welcome. However, it was important that that work should not begin until after the constitution of the new Board, so that the fresh ideas of the new Directors could be included in the process.

The Executive Board then took the following decision:

> The Executive Board adopts the Report of the Executive Board to the Board of Governors on the 1992 Regular Election of Executive Directors, set forth in Annex I to EBD/92/200 (9/4/92). The Board of Governors is requested to adopt, during the 1992 Annual Meeting, the proposed Resolution and draft Regulations for the Conduct of the 1992 Regular Election of Executive Directors appended to the Report.

Decision No. 10124-(92/113), adopted
September 4, 1992

4. DEVELOPING COUNTRIES - FINANCING AND DEBT SITUATION

The Executive Directors considered a staff paper on financing for developing countries and their debt situation (EBS/92/129, 8/11/92). They also had before them background papers on private market financing for developing countries (SM/92/162, 8/14/92) and official bilateral financing for developing countries (SM/92/166, 8/18/92).

Mr. Dawson made the following statement:

> We thought that the Fund paper provided an excellent summary of the progress that has been made during the last three years to improve the growth prospects of the heavily indebted developing countries, even in the face of the economic slowdown in the industrialized world. The strengthened debt strategy--with recent agreements in principle between Argentina and Brazil and their creditor banks--will soon encompass over 90 percent of the bank debt owed by the major debtor countries. The international financial institutions have taken the lead in encouraging the macroeconomic and structural reforms necessary to achieve sustainable growth and medium-term viability. And for their part, bilateral creditors have provided significant debt relief for

severely indebted developing countries. Against this backdrop, the Fund paper has raised a number of important issues.

With regard to the international debt strategy, we continue to support the current guidelines for the Fund's involvement, including the rules governing the segmentation of set-asides and augmentation funds. In our view, these rules continue to play a crucial role in encouraging a balanced selection of options by commercial banks. For those countries that have not yet reached agreements with their commercial creditors, we agree with the Fund's assessment that the key to success remains the sustained implementation of macroeconomic and structural policy reform. We also agree that for those countries with significant arrears to commercial banks and limited payments capacity, a track record of partial payments may improve the atmosphere for achieving a comprehensive debt reduction package.

We are also broadly supportive of the phased delivery of enhancements negotiated between Brazil and its bank creditors. However, Brazil's approach may not represent a practical model for many other debtor countries. Realistically, Brazil has more leverage in bank negotiations than smaller creditors. Furthermore, the shortfall in up-front enhancements for Brazil is the result of inconsistent policy performance. Spotty performance over the past year has delayed the accumulation of enhancements, while the absence of agreement on a medium-term adjustment program has postponed access to augmentation resources and bilateral funds. For many heavily indebted countries, we believe that sustained policy performance and commitment to medium-term adjustment is likely to be the most effective means to avoid upfront enhancement shortfalls.

Turning to the subject of official creditor support, we fully support continued, official financial support for countries undertaking appropriate growth-oriented reforms. My own authorities have always been prepared to examine the economic and financial needs of developing countries on a case-by-case basis. For performing middle-income countries, official financial support can take the form of officially supported export credits and guarantees, continued international financial institution support and, where necessary, Paris Club reschedulings. For the lower-income group, there is a broad array of mechanisms in place to assist countries in their adjustment efforts, including bilateral assistance, bilateral debt relief, Paris Club relief and international financial institution facilities, such as (the International Development Association (IDA), the structural adjustment facility (SAF), and the enhanced structural adjustment facility (ESAF).

We agree that we should direct official development assistance (ODA) more toward the poorest countries. In this regard, ODA is already being directed primarily to the poorest countries, as indicated by World Bank estimates showing that the share of total ODA going to the poorest rose from 48 percent in 1980 to about 60 percent in the late 1980s. At the same time, however, assistance to the poorest through the allocation of scarce concessional resources must reflect key issues such as economic performance. The quality of aid is the key, and we urge others to shift, as we have, to grant assistance which does not add to debt burdens.

The Munich Summit communiqué encourages the Paris Club to recognize the special situation of some highly indebted lower middle-income countries (LMICs) on a case-by-case basis. However, we continue to believe that the identification of heavily indebted LMICs with special needs and the actions to be taken by bilateral creditors is rightfully the job of the Paris Club.

We would, therefore, caution the Fund staff against trying to identify "highly indebted LMICs with special situations," as this could result in unrealistic expectations on the part of some debtors and exacerbate moral hazards. Furthermore, we believe that the Fund paper should have placed more emphasis on the major source of the economic problems of these highly indebted LMICs, namely their failure to sustain effective macroeconomic and structural reform programs. In this connection, we note that the paper identifies the three largest economies in the CFA zone as among the most problematic cases. Of course, if Fund staff had not sought to identify these countries, I would not have felt obliged to comment on this score.

The Munich Summit communiqué also noted that the Paris Club has agreed to consider the stock of debt approach, under certain conditions after a period of three or four years, for the poorest countries prepared to adjust. The Paris Club agreed last year to "Enhanced Toronto Terms" for the poorest countries, which includes options providing 50 percent debt-service reduction on payments coming due. Thus far, eight of the poorest countries have benefited from these Enhanced Toronto Terms. The United States has supported these moves and has itself provided more general debt relief for the poorest countries by granting longer repayment terms.

As in the earlier discussion of LMICs, however, we believe that the appropriate level of official bilateral debt and debt-service reduction for the poorest countries is a matter for the Paris Club, not the Fund, to decide. Going beyond the current Enhanced Toronto Terms for some debtors in the Paris Club, as suggested by the Fund paper, may raise legal and budgetary issues for many bilateral creditors.

The staff suggestion of deeper debt reduction by the Paris Club also ignores alternative means to provide financial support for the reform efforts of the poorest, such as bilateral debt reduction, grants, and concessional assistance. For example, U.S. bilateral assistance to the poorest countries is now being provided on a grant basis and our assistance to sub-Saharan Africa has increased from about $550 million in 1987 to about $900 million in 1991. We also forgave more than $2.3 billion in concessional debts owed by the poorest countries to the U.S. Government in fiscal year 1991.

Further on the subject of official flows, we agree wholeheartedly with the paper's comments on pages 9 and 10 on the negative consequences of escrow account arrangements to protect new credits to the public sector. In our view, there is a strong need for an agreement among official export credit agencies to avoid such arrangements.

Turning to external financing issues for market re-entrants, as we have emphasized in previous discussions, we believe that much remains to be done to encourage the efficient mobilization of scarce financial resources. Policy-based lending by the international financial institutions has been especially effective in this regard. In particular, effective investment reforms and financial sector reforms are essential ingredients for nurturing a stable financial environment for private market flows. The Inter-American Development Bank has been heavily involved in promoting such needed reforms in Latin America. At the same time, we strongly agree that market re-entrants need to be vigilant that renewed financial flows are used productively and for internationally competitive activities.

We strongly support the Fund staff recommendation that countries pursue institutional reforms that improve the availability of information and the ability of investors to assess investment risks. Regarding the availability of information, there also seems to be a paucity of aggregate and country-by-country data on private capital flows that would be regularly accessible in a timely manner to both policymakers and market participants. Up-to-date information on the stocks and flows of private capital could be very important as an early warning of potential problems, as well as an indicator of important trends. While we do not have a view as to which institution would be best placed to gather and disseminate such data, we would suggest that the Fund study this issue more closely. Of course, increased information will not reduce risks per se, but it should reduce uncertainty and the perception of risk. In this regard, the importance of timely and consistent information cannot be over-emphasized.

We thought the paper could have placed more emphasis on the importance of developing secondary markets, where the trading of financial instruments would provide the combination of timely market signals and liquidity to allow investors to make portfolio adjustments more quickly. When a crisis does develop, a functioning secondary market can provide investors with the information to make more rational hold and sell decisions.

Finally, in our view, creditor country regulatory regimes do not appear to be a constraint on private market flows, given the need to maintain adequate prudential standards. Indeed, we believe the U.S. regulatory regime is sufficiently flexible to respond to sustainable improvements in creditworthiness.

In conclusion, let me just add how refreshing it is to be in a position to consider issues such as countries' re-entry into private capital markets, in addition to more longstanding issues of country indebtedness. While the debt problems of a number of countries have yet to be resolved, it is clear that considerable progress has been made overall. With the continued cooperation of official bilateral and commercial creditors and the multilateral institutions, and strong efforts on the part of debtor countries themselves, we expect that progress will continue to be made on the remaining problems.

Mr. Ismael made the following statement:

We have reviewed EBS/92/129 and the two accompanying background papers with much interest. There are a number of general points arising from these papers, and in particular from the issues spelled out on pages 26-28 of the basic paper, which we thought would be worth receiving our attention.

EBS/92/129 concentrates on developments regarding commercial and Paris Club debt. We would agree with most of the remarks outlined in this paper. We note, however, that there is no discussion of the possibility of measures to assist countries with respect to multilateral debt.

We recognize that this is a potentially sensitive issue, but given the fact that borrowing from multilateral institutions is an increasing proportion of the total indebtedness of the poorest countries, which arguably have the greatest need for assistance, we feel that there should be some consideration of ways in which relief can be provided on this category of debt. There are a number of recent instances in which World Bank debt has effectively been rescheduled by converting these loans into IDA loans at concessional rates of interest for very long maturities--for example, in Uganda and Ghana.

It is stated that a key feature of the approach of official bilateral creditors in Paris Club reschedulings has been to exclude, inter alia, any post-cutoff date debt, and that this approach has been crucial to the continuation of new official support. There has, however, been a willingness on the part of Paris Club creditors to reschedule accumulated arrears, some of which have applied to postcutoff date debt. In effect, relief is thereby also being provided on post-cutoff date debt, albeit indirectly. We believe that the question of cutoff dates and the treatment of pre- and post-cutoff date debt needs to be reviewed so a more flexible and realistic approach to this issue can be adopted.

The interesting point from the remarks on commercial bank debt would be the favorable impact of debt-reduction strategy (Brady-like debt reduction) on the economic development of countries such as Venezuela or Mexico, and the progress brought to the resolution of the debt problem worldwide by the concept of debt reduction.

Although a number of rescheduling countries have regained or are in the process of regaining access to private capital flows, in practical terms there are comparatively limited funds available from the bond markets, and decreasing liquidity among commercial banks.

As expected, lending banks, faced over the past decade by debt-rescheduling operations and--more recently--a reduction of their loans, have become very cautious and extremely reluctant toward any lending which is not short-term, trade-related, project-related, and heavily secured or collateralized, to countries that have experienced debt problems.

It is very important, therefore, that these countries are able to attract equity investment, and, accordingly, policies must be pursued that are conducive to restoring the confidence of foreign investors and thereby attracting foreign investment. In particular, we believe that there is significant scope for substantial capital flows to be provided for developing countries through the establishment of major joint venture operations by leading multinational corporations, which would not only provide capital, but also manage the operation on a commercial and technical basis. In addition, they would be able to offer in the longer term, the transfer of technology, development of management skills, etc.

Although not highlighted in the papers, further attention needs to be focused on countries that, although severely indebted, have, through the consistent implementation of sound economic policies, avoided succumbing to rescheduling. Further thought needs to be given to these countries, whose record merits recognition through special assistance and increased concessionality.

So far, little has been done for heavily indebted countries that have avoided debt-servicing problems. It is correct that, in a few cases, new bank lending has remained available, and that donor countries have maintained sizable commitments toward the country.

However, some multilateral and bilateral creditors, with a view to reducing the amount of concessional financing available in future years to those countries, tend to advise them to diversify their financing sources toward more expensive, less appropriate funds with shorter maturities.

This would not be "fair" for the countries that have "behaved" in a responsible fashion, as commercial sources, such as banks and capital markets, are not entirely interchangeable with concessionary financing sources. Such a substitution would penalize those countries by causing a deterioration of their debt structure, average cost, and profile.

Mrs. Martel made the following statement:

As I am largely in agreement with the staff report, which I appreciated for its clarity and its deepness of views, I would like to make a few reflections on the present debt situation while commenting on the issues raised by the staff for discussion.

The acuteness of the debt crisis of the early 1980s has recently been reduced, but it continues to exert an important influence on many developing countries' ability to attract new flows of foreign capital. The increasing differentiation among developing countries calls for a flexible treatment within what should remain a concerted and long-term approach.

The total foreign debt of developing countries has stabilized over the past few years (except for the impact on exchange rate fluctuations) at approximately $1.4 billion, new loans being largely offset by debt-reduction operations. The debt-servicing level has dropped a bit recently, due to debt-restructuring operations and lower interest rates for dollar-denominated loans. In constant terms, developing countries' debt-servicing payments are globally 40 percent lower than their mid-1980s level.

The debt strategy, that is to say the principles under which these debt problems should be treated, is now well established and meets with a consensus around a few principles. The debt problem of one particular country cannot be treated separately, or independently, from the debtor countries' overall economic policy. Our institution, and the World Bank, play a major role in laying down this economic conditionality. For the poorest countries, it is now widely accepted that the face value of debts does not correspond to the actual "collectible value" creditors can reasonably hope for. Under these conditions, successive debt-rescheduling operations solve the issue of short-term liquidity, while increasing the outstanding debt and leading to "adjustment fatigue," that is to say the feeling on the part of both public and private agents that the return to an external viability would be extremely difficult; in other words, these countries are faced with a solvability issue. In such cases, public and commercial debt-reduction operations are warranted, making it possible in some cases to improve the medium-term solvability of the debtor countries involved. It is essential to ensure fair burden sharing among all kinds of creditors, notably public creditors as compared to banks. Today, even more than in the past, this principle is deemed key by official creditors. The debt problem, which is by its very nature a legacy of the past, cannot be handled independently of the problem of current and future financing of developing countries. From this standpoint, it is of the utmost importance to maintain new public and private flows ("spontaneous capital flows"), as developing countries' domestic savings cannot provide sufficient funds for the development.

Indeed, market perceptions can be slow to turn around when performance and prospects are improving. The potential skepticism of slow response of private financing sources can pose a challenge to the adjustment process.

In the most recent period, economic activity in the developing world has been relatively resilient to the slowdown in industrial countries, partly as a result of recent reductions in macroeconomic imbalances and the adoption of structural reform programs in many countries. Moreover, the decline in international interest rates has alleviated the costs of servicing external debt.

In this context, several countries, notably Latin American, which have completed commercial debt restructuring, have attracted increasing capital flows, mainly through bond markets, as compared to syndicated loans. Indeed, the developing country sovereign bond market has grown rapidly in the recent years.

However, only a few countries have benefited from such new financing, as the recent years have been marked by an increasing differentiation between debtors: from a geographical standpoint, sub-Saharan Africa is worse off now than at the beginning of the debt crisis, as the outstanding debt/GNP ratio rose from 40 percent in 1982 to nearly 100 percent since 1988; on the contrary, Latin America is in a better position, with the level of private financing having trebled between 1990 and 1991 to reach approximately $40 billion, according to recent estimates. Still, this geographical grouping has its limits; Gabon, an oil producing country, is not at all in the same position as Niger, nor is Bolivia as compared with Brazil.

This differentiation is probably reinforced by market perceptions, as the reliance on bond financing provides lenders and borrowers with continuous indications, through secondary market prices, of not only market expectations about the borrowers' policies but also the willingness of other creditors to lend now and in the future. From this point of view, the recent and considerable increase in the price of developing countries' debts and bonds is worth noting.

As regards the official debt, I would like to make two points. First, as to the poorest highly indebted countries that are following an adjustment policy, public creditors have reinforced their efforts considerably. Since October 1988, the Paris Club has granted concessional treatment through debt and debt-service reduction to these countries. Until December 1991, the debt alleviation involved amounted to 33 percent of the payments due (Toronto menu). Since December 1991, a new menu has been developed (London terms), increasing the debt alleviation to 50 percent. This new treatment is a reflection of the international solidarity that is necessary to face the problems experienced by many debtor countries, especially in sub-Saharan Africa.

Two elements are worth mentioning: the possibility offered on a bilateral basis to the creditors who wish to do so, to practice debt conversions, on the same conditions as those already opened for the lower middle-income countries; and the possibility to treat, at the end of a testing period of three to four years, the stock of debt of concerned countries.

On this second element, needless to say, we agree with the staff that "given the diversity of country circumstances, the terms of such debt-reduction agreements need to be considered on a case-by-case basis," of course, taking into account the financing needs of these countries.

Second, sizable changes have also taken place in favor of lower middle-income countries, following the Houston Summit in September 1990: lengthening the repayment period up to 15 years for nonconcessional claims, and up to 20 years for ODA claims; and opening the possibility of swapping debt on a voluntary basis. Besides, there is a continued need for creditors to re-examine the situation of those lower middle-income countries engaged in ambitious economic adjustment policies under the aegis of the Fund. If any generalization of public debt-reduction measures should be avoided, it is certainly necessary to provide those who undertake significant efforts with the appropriate solutions, regardless of the category, classification, and the limits already established. In this regard, we are encouraged by the Munich Summit statement strongly recommending the recognition of the special situation of some highly indebted, lower middle-income countries. We agree with the staff that it is necessary to work expeditiously on this recommendation.

As regards new bank lending, provisioning requirements for countries that have experienced debt-servicing difficulties imply that new lending bears substantial capital cost and may have been one of the factors deterring renewed bank lending to countries that have recently gained access to securities' markets. There may be scope for more timely recognition of countries towards creditworthiness while taking care not to compromise prudential standards.

Such a change should not be expected to spur an immediate resurgence of bank financing to these countries, but might help to set the stage for a gradual resumption of bank lending in appropriate circumstances.

This being said, the present situation is still globally fragile. Short-term trade credit has been almost the only form of spontaneous commercial bank lending to countries emerging from debt-servicing difficulties. Such flows are crucial to finance their imports, but, on the other hand, they increase their immediate vulnerability to shifts in confidence. This could lead to problems if it were to encourage a general pattern of funding of long-term investments through short-term flows. As exemplified by the situation of the former U.S.S.R., almost any country can face an unexpected payments crisis calling for a concerted and cooperative approach. In the event of a payments crisis, an increasing part of the foreign debt could not be rescheduled: the multilateral nonrestructurable debt represents an increase in share of the debt service (from 6 percent of global debt service in 1982 to 20 percent in 1990) of developing countries; similarly, the development of the developing countries' sovereign bond market is closely related to market perceptions of the seniority of bond instruments, which, in turn, reflect continuing full debt servicing of these instruments by the major debtor countries in the context of the earliest difficulties encountered in meeting contractual obligations on other debts.

Ultimately, a sustained decline in risk premia attached to developing countries' exposure will only be founded in a set of macroeconomic and structural policies that establish a stable financial environment, promote sustained growth, and result in external financing needs that remain within sustainable limits.

In conclusion, I agree with the main recommendations made by the staff, namely, that a phased approach to the delivery of enhancements may prove desirable, official financial support may prove crucial in the future for a certain number of countries, and countries actually receiving capital flows should take all the necessary steps to consolidate this trend and ensure adequate protections.

However, I have some difficulty in agreeing with the proposal by the staff that debt and external financing issues be considered by the Board on an annual basis. As recent experience has shown--let me just mention the case of Argentina--there might be some case for reviewing our guidelines more than only once a year. Without having necessarily a lengthy decision, it could be provided for, on less than an annual basis. The passage in paragraph (d) on page 28, hinting that "a net present value reduction by 50 percent might be insufficient in some cases," needs to be carefully assessed and examined before we can endorse it.

Mr. Dorrington made the following statement:

Let me first congratulate the staff on the papers, which I personally found to be an extremely helpful summary of the issues, a view also shared by my authorities. Turning to the issues, significant progress has been made, and the systemic risk once posed by the debt crisis is no longer an immediate threat--but must not be forgotten. Nonetheless, considerable concerns remain.

First, with regard to Brady packages, there are signs that problems may be emerging due to the banks' overwhelming preference for the par bond option, with its associated requirement for enhancements. I would reiterate what my predecessor said when the Board last discussed Brady guidelines, namely, that the Board should not take a passive stance in these deals--it must be willing to refuse to provide finance to support a deal if the agreement is poorly priced, the menu is unbalanced, or the commitment to the reform program is unconvincing. In short, the proposals must be realistic and of benefit to all parties. Realistic is a word I will use a few more times.

The phased approach to providing enhancements in the Brazilian deal is an example of market realism, allowing a deal that would not otherwise have been possible. And in general, my authorities favor market-negotiated solutions.

However, we are disappointed with the generally slow progress under the IDA debt reduction facility. There may be a role here for the Fund in trying to bring low-income debtors and their bank creditors together.

With regard to new bank lending to developing countries, I certainly reject the suggestion that inappropriate provisioning guidelines are a major limiting factor. In general, bank lending has been deterred because many developing countries have proved themselves to be very poor risks. In the United Kingdom, at least, provisioning guidelines merely seek to reflect these risks. Of course, once it has been clearly established that there has been a sustained improvement in conditions, this should be, and is, reflected in provisioning.

Turning to Paris Club issues, this chair strongly welcomes the decision to extend debt forgiveness to the most heavily indebted low-income countries, using many of the ideas presented in the Trinidad terms proposals.

If we are to be realistic, while 50 percent debt reduction will be sufficient for some of the heavily indebted low-income countries, for others even paying back half of their outstanding debts is clearly impossible. All the evidence suggests that realism is also in the best interests of creditors, both official and private sector, and the uncertainty associated with an unserviceable debt burden acts as a disincentive to reform, and to future capital inflows.

Furthermore, for countries that have unambiguously demonstrated a commitment to economic reform, we believe that a stock of debt approach to forgiveness should be implemented immediately, rather than waiting for a three- to four-year period. The Fund has a considerable interest in pressing the Paris Club to be more forthcoming on this point.

My authorities also support the extension of official debt forgiveness to a few lower middle-income countries, although I would emphasize the importance we continue to attach to the need for a concerted approach by all creditors, so as to avoid any free-rider problems.

Turning now to other issues relating to countries re-entering the markets, I welcome the growing share of equity financing and private sector lending in the total financing flows to developing countries. This should lead to more flexible external obligations, compared with sovereign debt-service payments, especially if it results in less vulnerability to swings in the external financing environment, over which borrowing countries have little or no leverage.

But even for the graduating countries, there continue to be a number of issues of concern. Even reduced debt levels are still very high in many cases. The whole "virtuous circle" of the graduation process can be quite fragile. There remains the potential for a renewed debt crisis in the event of a sudden market "correction", perhaps as a consequence of some "shock." And I share the concern expressed in the paper over swings in financial markets between overoptimism and overpessimism. Furthermore, coping with any crisis in the future will be more difficult, as a greater proportion of claims are now held through disbursed instruments, such as bonds, rather than more concentrated syndicated bank loans.

The prioritization of different claims and the growing share of senior creditors in the total debt stock are also worrying, because if a recovering country gets into serious problems again, there will be less of a buffer before its senior debt is threatened. Furthermore, countries may elect to treat profits and dividends as a senior claim on foreign exchange; otherwise, the whole flow of private market financing to recovering countries could collapse. In my authorities' view, international financial institution debt is undoubtedly senior to all other debt, but the comfort to be drawn from this reduces as the proportion of senior debt increases.

Finally, the paper proposes that debt and external financing issues should be considered by the Board on an annual basis, rather than biannually, as at present. I am content with this suggestion, but, of course, should circumstances change, we should be ready to revert to biannual discussions.

In any event, there may on occasion be individual debt-related issues on which papers could be discussed by the Board--for example, guidelines for Fund support for commercial bank debt deals, specific aspects of the Fund's relationship with the Paris Club, or the apparently unequal treatment by financial markets of countries in different regions, making equivalent adjustments. I would also suggest that a very good topic for a Board seminar at some stage would be a forward-looking assessment of the lessons from the debt crisis, and how debtors and creditors can avoid a repetition in the future. The current paper provides a very useful foundation stone for that.

Mr. Shimizu made the following statement:

At the outset, I would like to join previous speakers in commending the excellent papers before us.

I welcome the progress on commercial debt restructuring since the last Board review of the debt situation. Argentina reached an agreement with commercial banks on a term sheet; Brazil and commercial banks agreed in principle on a package; and for the Philippines, the buy-back operation of the debt package was completed. Given these countries' absolute amount of debt, the completion of debt restructuring of these packages will be an important milestone in solving the commercial debt problem. On the other hand, there are still countries that have not reached agreement with commercial banks on debt-restructuring packages. It is hoped that these countries and the banks will strive to reach agreement in light of the importance of commercial debt restructuring to regaining external viability. The experiences of countries that have succeeded in commercial debt restructuring show the necessity of implementing strong adjustment policies on the part of debtor countries and of improving relations with commercial banks by paying interest.

With regard to the shortage of resources for enhancements, debtor countries should increase their own resources by adopting sound adjustment policies. Such policies would also mobilize external support for debt-reduction operations. In addition, the phased approach on delivery of enhancements adopted in the Brazilian package may be useful, although we should study the Brazilian approach carefully.

Let me now turn to official debt. It should be recognized that reduction of official debt has a detrimental effect on new money and would cause a moral hazard to those countries that have served their debt faithfully even though their balance of payments situations may be difficult. In this connection, I agree with Mr. Ismael that more attention from the international community should be given to those countries.

On low-income countries, I welcome the fact that the new Toronto scheme has already been applied to eight low-income countries. The concessional element of this scheme is much higher than the original Toronto scheme, and it is hoped that low-income countries will utilize the scheme, together with sound macroeconomic structural policies, to regain their external viability. The problems of the lower middle-income countries should basically be dealt with through extended rescheduling, as agreed in September 1990.

For low middle-income countries, it is important that the Paris Club recognize their special situations on a case-by-case basis, as was stated in the communiqué of the Munich Summit. At the same time, in light of the fact that the commercial debt of these countries is also putting a heavy burden on their external positions, efforts by all the creditors concerned, private and official, are important.

I am pleased to note that certain middle-income countries with experience of debt-servicing difficulties have made significant progress in regaining and expanding their market access. However, it is necessary for these countries to make every effort not to cause a revival of the debt crisis. First, non-debt-creating flows, such as foreign direct investment, should be encouraged. It is also important for capital flows to be used in the most efficient and profitable sectors, as the staff emphasized. Sound macroeconomic and structural policies would enhance the resilience of the economy in the event of adverse shocks.

On the other hand, new bank lending to market re-entrants has been limited. The staff paper points out some of the factors behind this, such as constraints of the banks' balance sheets. I agree with Mr. Ismael that one of the fundamental factors is that banks have not restored the creditworthiness of market re-entrants. Therefore it is necessary for market re-entrants to make every effort to improve their creditworthiness by implementing adjustment policies and serving all their private and official external obligations.

The large increase in capital inflows, especially in Latin America, has caused complicated problems, such as inflationary pressure and a rising exchange rate. Countries are trying to cope with these problems by way of, for example, open market operations or administrative restrictions. But these measures lead to other problems. Given the importance of this problem, it warrants further study, but I think the problem could best be tackled by fiscal consolidation.

Mr. Végh made the following statement

At the outset, I wish to commend the staff for providing us with a very comprehensive analysis of the debt situation and financing prospects facing developing countries. The continued progress toward debt restructuring with commercial banks and official creditors, and the further broadening of access to international bond and equity markets by many middle-income countries and some lower middle-income countries, predicated on sustained improvements in their economic performance, is encouraging. This characteristic applies particularly to the members of this constituency since all are resolutely committed to re-establishing or sustaining, after prolonged absences, their access to spontaneous financing flows as a means for accelerating their development effort.

Although the systemic threat of the debt crisis has been successfully contained, the generally protracted nature of unresolved problems heightens the uncertainty regarding the return to external viability for a very large number of countries representing a significant stock of debt to official and commercial creditors. In such circumstances, the sustained implementation of comprehensive macroeconomic and structural adjustment programs by debtors remains the key, but such an effort will be undermined if the support of official sources to finance the implementation of refinancings, reschedulings, or comprehensive bank restructurings commensurate with servicing capacity fails to materialize in a timely and adequate fashion.

Only 5 of the 15 heavily indebted middle-income developing countries have achieved comprehensive bank debt restructurings. Three additional countries are now nearing the final stage for the implementation of debt and debt-service reduction operations entailing, in the case of Argentina and Brazil, the normalization of protracted arrears with private bank creditors essential for strengthening domestic private investment activities and for sustaining market re-entry.

The recent flexibility of Fund and Bank guidelines in support of principal collateral in par bond exchanges constitutes a welcome recognition of changing circumstances; however, the stronger than expected weakness in world economic activity, translating into a lower interest rate scenario since closing of the abovementioned debt-reduction deals, has not facilitated the achievement of a balanced selection among menu options. While in the case of Argentina, intensive discussions are presently being held with bank creditors to encourage the reallocation of bank choices toward the discount option from indications received, the scope for significant movement beyond a 70 percent par bond/30 percent discount bond distribution is deemed slight. Such an outcome would nevertheless reduce the vulnerability of the economy to shifts in external financing, as a high portion of existing claims, already factored into the design of the program, would be serviced at low, fixed rather than floating interest rates, thus limiting the direct impact of an increase and the uncertainty linked to possible disruptions in future debt servicing.

The rigid application of segmentation provisions by the Fund could, in view of its catalytic effect on the accumulation of the needed enhancement package, unnecessarily delay implementation of an otherwise cost-efficient debt-reduction agreement and, more importantly, weaken private sector confidence. Needless to say, such an outcome could also affect Argentina's successful privatization program in full swing, which entails sizable additional debt conversions compatible with sought-after reductions in the debt stock.

In view of the close consultation with the Fund throughout the negotiation with commercial bank creditors, including the aspect of mandatory prepayment, the calendar that my authorities are painstakingly striving to meet calls for signing the contracts after the Annual Meetings and the exchange of notes, with adequate enhancement support of the Fund, immediately after concluding the debt-reconciliation process, which is not envisaged before the end of 1992.

With respect to present financing trends, I wish to note the further retrenchment of new voluntary bank lending to market re-entrant countries as well as the more limited scope of their intermediation structured around instruments that protect against country transfer risk. Excessive reliance on export credit guarantees, cofinancing, collateralization and escrow account mechanisms not only slow down the process of re-entry but, by restricting resource availability and increasing its cost, discourage investment activity in internationally competitive domestic sectors and distort the pricing of risks.

I share the view that it is important to broaden the investor base of the securities market to sustain spontaneous flows, and that stock market reforms to improve the price-determination process, together with adequate dissemination of information and the development of appropriate regulatory oversight, are important specific actions that borrowing countries should take in this regard. Nevertheless, this resource base should serve to diversify funding risk and not concentrate it. Market re-entry cannot be conceived without recourse to voluntary and unsecured commercial bank financing.

In this regard, I read the section on provisioning requirements in the background paper with great interest. Regulatory guidance should be responsive to improved circumstances without jeopardizing prudential standards and not preclude gradual resumption of bank lending. Increased frequency of reassessments as, for example in the case of the U.S ICERC, or on the basis of renewed market access in the case of Canada, the setting of provisions by asset type and the avoidance of applying general requirements to a broad spectrum of diverse borrowers, are constructive approaches in this regard.

I would hope that the staff might also, in the future, provide more insight into the incidence of existing tax regulations on banks' portfolio allocation decisions, particularly in markets where the spillover of financial fragility is not as intense. The reference to the requirement that French banks reverse tax benefits previously obtained when a re-entrant country is removed from the mandated provisioning basket, and the recent agreement of the French authorities to phase such a reversal over a transitional five-year period when such provisions exceed the existing legal level, suggest the existence of a financial disincentive with a structurally adverse impact on an otherwise creditworthy borrower.

On the particular vulnerability of market re-entrants to shifts in the availability of external financing, I consider that the successful integration of these economies into international capital markets necessarily implies exposure to shifts in global market conditions. While volatility in external flows will not be avoided entirely, the consolidation of economic and political stability supported by widespread structural reforms is building in a much greater resiliency of the respective economies to downside risk. In that context, the associated buildup of reserves, the reduced exposure to interest rate fluctuations, more diversified export bases, the greater preponderance of private sector equity obligations and, more importantly, the lower overall public debt stocks within overall fiscal balances, suggest that their vulnerability is no worse than the system average and, in many cases, substantially better. I, therefore, tend to view as the main weakness of market re-entrants on this occasion, as compared with 1978-82, their particular openness and exposure to a further slowing down of world economic activity or to the failure to maintain an open multilateral trading environment correlating with a lack of agreement on the Uruguay Round.

Against this backdrop, the general prescription to sterilize private capital inflows would be counterproductive. We have too often been reminded of the difficulty in offsetting the resulting quasi-fiscal deficits or countering the secular rise in interest rates or domestic borrowing costs. It is important that country-specific circumstances clearly be kept in mind and that ready-made general prescriptions to this difficult question not be offered without appropriate qualifications.

The introduction of administrative controls similarly entails new distortions affecting private sector allocative decisions and confidence and should be proposed with the same circumspection. For this reason, I was particularly troubled by the recommendation on page 68 of the background paper that, when foreign direct investment flows are voluntarily being resumed, recipient countries should have an explicit registration requirement for investment projects. The suggestion that, by re-implanting the sort of administrative mechanisms that served to deter such flows in the past one can ensure market access for the purpose of repatriating risk capital or making dividend payments, distracts from the well-placed emphasis on sustaining sound macroeconomic policies. The potential stock of profits and capital can be taken into account in program design through guidelines on statistical reporting and not through an explicit registration procedure for projects in those countries where it might be construed as a tightening of the existing regulatory environment.

On the important issue of the strategy of bilateral official creditors, the acute financing need of low-income and a few lower middle-income developing countries affected by pronounced imbalances, particularly protracted arrears and a concentration of official claims, clearly calls for far-reaching concessionality in support of comprehensive domestic adjustment. The evolving menu approach and graduated repayment schedule with a 50 percent concessionality element is a particularly noteworthy contribution toward a sustained improvement in their debt situation. Nevertheless, the possibility of ensuring outright graduation still is illusive at best.

I, therefore, support the call for a more comprehensive debt-stock restructuring approach conditioned upon full implementation of rescheduling agreements and continued performance with the Fund. Similarly, a definitive conditional, but nonconcessional, solution built from the outset into multiyear agreements with middle-income countries would significantly reduce uncertainty regarding their return to external viability. As only seven countries in this group have graduated since 1983, such a stance would tend to reinforce the effectiveness of the debt-subordination principle for sustaining debt servicing, particularly when a clear concentration of maturities is not concurrent with Fund arrangements but nevertheless is present in the medium-term scenario.

Finally, I would like to end with a brief remark on the treatment of privatization in the background paper, to which I have attached importance in view of its intended publication. First, the reference to country cases on page 14 seems to imply that, as a relatively small amount of Argentine commercial bank debt was retired in 1991 and the first quarter of 1992, and the figure of only $12 million was mentioned, the entire privatization program, which is one of the most ambitious among the membership, has slowed down. The fact is that privatization during this period produced cash receipts to finance structural transformations of around $1.5 billion plus an additional debt retirement of over $170 million through the sale, inter alia, of primary and secondary oil and gas fields, four petrochemical plants, a hotel, and a shipyard. In addition, and perhaps more importantly, legal regulatory frameworks were agreed or enacted for natural monopolies including the electricity generation and distribution system of Buenos Aires, recently privatized, and gas transmission and distribution and water works facilities in the pipeline.

Second, the conceptual justification for privatization on page 49 omits a potentially favorable side effect when it restricts its usefulness to the supply of stocks of financial assets or improvements in economic efficiency. In my opinion, it also brings in needed transparency in public finances and constitutes a trigger for dealing with the generally intractable problem of interenterprise arrears and cross-arrears with other public sector jurisdictions. Lastly, I appreciate the reference in that same section to Chile, Mexico, Venezuela, Hungary, and Brazil as examples of particularly successful privatization programs undertaken in recent years. In that vein, I would also request the inclusion of Argentina, given its program's unprecedented scope and speed of implementation.

Needless to say, such an outcome would also affect the successful privatization program in full swing and which entails sizable additional debt conversions compatible with sought-after reductions in the debt stock.

Mr. Torres made the following statement:

The staff papers present a very good and thorough description of the recent progress made in managing the debt situation. Based on this experience, the staff draws some very interesting conclusions, which I would like to emphasize and on which I would like to make some brief comments.

First, this year marks the tenth anniversary of the debt crisis, and, with confidence, we can say that a number of middle-income developing countries have now put the debt crisis behind them. However, as the staff report highlights, the debt crisis is far from over. Many indebted countries, particularly low middle-income and low-income countries, continue facing severe difficulties in servicing their debts. The large amount of resources that they have to devote to servicing their debt, which in many cases is not even sufficient to meet their contractual obligations, produces uncertainty in their economies and hampers their adjustment efforts. It is clear that, in order for these countries to regain external viability, a large portion of the--largely official bilateral--debt will have to be written down. This will have to be done on a case-by-case basis, with several countries requiring more than the 50 percent reduction in the present value of debt service that has been granted in some recent agreements in the Paris Club. In this regard, the Munich Summit communiqué gives us some hope that there will be progress in dealing with the debt problems of the low-income countries.

Second, the staff report points our attention to the need to continue addressing the interaction between private international capital markets and indebted developing countries in a systemic manner. Undoubtedly, the stabilization policies and bold structural reforms undertaken by indebted developing countries, the fact that now the private sector is the main borrower, and the greater role played by equity financing, signal that the current experience of market re-entry for several middle-income countries is much more robust than in the past. Moreover, the trade and capital account liberalization that has characterized the adjustment programs, and the greater integration that this implies with the world's goods and financial markets, will most probably result in a swifter reaction by the markets to deviations from sound financial policies in capital-importing developing countries. These self-corrective forces should, in current circumstances, exert an important disciplinary effect on financial policies in capital-importing developing countries. This should defuse any view that identifies the current resumption of financial flows to developing countries as representing the seeds of the debt crisis of the next century.

In sum, we believe that the world financial markets have evolved, and that the four actors involved in the debt crisis--commercial bankers, indebted developing countries, creditor governments, and multilateral financial institutions--have learned the lessons derived from the debt crisis and have emerged stronger and wiser from the past decade. Nevertheless, the history of debt crises in developing countries, and particularly in Latin America, suggests that bankers can suffer a collective case of short-term memory, and that government officials in developing countries can succumb to the temptation of recurring to more financing and less adjustment. Therefore, the words of caution by the staff, on the need to disseminate information on the risks that investors face in different countries in order to avoid bandwagon effects and the need to avoid implicit government guarantees of private sector debt, are, indeed, warranted. In addition, it calls for the Fund to be vigilant with respect to systemic developments that might threaten the stability of international financial markets. In this regard, we welcome the attention that has recently been paid to the surge in capital flows to Latin America and the consequences that this might have on real exchange rates, trade flows, and the conduct of monetary policy.

I would like to conclude by reiterating our call for the elimination of segmentation--set-asides versus augmentation--in the current guidelines of Fund support for debt and debt-service reduction, as they impose artificial constraints on member countries without any economic logic or need.

Mr. Solheim made the following statement:

Let me first compliment the staff for having produced very useful and interesting papers. In general, my authorities are in broad agreement with the staff's views on the financing for developing countries and their debt situation. I will therefore only comment on some of the issues raised by the staff.

My authorities welcome the progress that has been made toward finding a solution to the external debt problems for a number of developing countries. Moreover, it is positive that many countries have regained their access to capital market financing. The improved situation endorses a strategy based on strong economic adjustment and reform policies in the indebted country, supported by external creditors in the form of debt reduction and rephasing.

However, major differences still exist between the developing countries, and for a large number of low-income countries the debt situation has continued to deteriorate rather than to improve. Although adverse external developments have been of importance in a number of cases, the lack of sufficiently strong adjustment and reform policies go a long way toward explaining this outcome.

For a number of highly indebted middle-income countries, continued progress toward a lasting solution to their debt problems is crucially dependent on considerable financial support from official creditors and successful conclusion of debt-reduction agreements with private creditors. Stronger efforts from these parties are also important for the Fund's future exposure.

As far as the lower middle-income countries are concerned, my authorities support the staff's view that even partial payments of interest arrears are of importance in order to improve relations with private creditors.

For the heavily indebted low-income countries, extension of loans with a high degree of concessionality, as well as debt cancellation from both official and private creditors, will be critical for a lasting solution to the debt problem. This has, however, to be coupled with implementation of more ambitious economic policies. In this respect, the Paris Club's increased emphasis on concessionality is a welcome development. The Nordic countries would also like to reiterate their earlier proposal to increase the degree of debt reduction with up to 80 percent for countries with the heaviest debt burdens. Furthermore, my authorities attach great importance to a solution with regard to low-income countries' debt to private creditors. Direct public support for comprehensive debt settlements with private creditors may prove to be a useful path to pursue. However, the unequal burden sharing up to now among official creditors, as well as between donors, is to be regretted.

The balance of payments situation and the financing needs will remain large in the low-income countries. Capital inflows of any magnitude, based on the current international market terms, are, however, unlikely. The Fund's financial role in this respect should be thoroughly dealt with in connection with the upcoming discussion of the experiences with the ESAF arrangements and the possible need for a new ESAF-like arrangement.

We agree that the introduction of phased enhancements as part of the debt strategy will increase flexibility by allowing for debt settlements for countries with insufficient access to foreign exchange. This can also prove useful for countries other than the largest debt countries. The phased disbursement may also provide better protection to resources provided by the Fund in connection with debt agreements. However, in situations in which the phased strategy will increase the complexity of the negotiations with the banks and in which investments and growth will be severely affected by a large external debt, employment of the usual techniques for reduction in the debt burden seem desirable.

Ms. Szombati made the following statement:

We generally agree with the staff's account of the recent course of the debt situation of the developing countries, and with the summary of the progress made in resolving the debt problems of various country groups. It is gratifying that several developing countries have mastered their severe debt problems in the past few years and are persevering with their external viability via refinancing/rescheduling agreements with their creditors. After peaking in the mid-1980s, the debt indicators of many middle-income developing countries have steadily declined, diminishing the threats of major liquidity crises and enormous arrears accumulations that have haunted the world economy since the eruption of the debt crisis ten years ago.

Unfortunately, this encouraging outcome has not yet reached the majority of lower-middle and low-income countries, whose debt-servicing problems are still severe. For a number of the latter, unresolved debt problems dim the prospects for external viability and sometimes undermine adjustment efforts. This mixed picture attests to the basic soundness of the debt strategy; and for those countries that still have severe debt-servicing problems, this highlights several areas where a strong and coordinated effort by both debtors and creditors will be needed.

The progress of several middle-income countries is marked by their graduation from recourse to exceptional financing to regained access to flows of new money, both private and official. Their better economic performance and sustained reform efforts have done much to mobilize official support for debt operations and to stem, or even reverse, the flight of private domestic capital. The recovery of external viability by middle-income countries that have undergone comprehensive bank restructuring should encourage all debtors to create an attractive and supportive environment for debt operations. A determined pursuit of stabilization and structural policies, and a good repayment track record are the most important requirements for restoring normal banking relationships. Cooperative and flexible solutions for easing the financing of market-based restructuring packages and shortening negotiations are also needed. We agree with the staff that direct official financial support, combining new money with cash-flow relief, is needed to bolster adjustment efforts during the critical stabilization phase and to ease these countries' graduation from the Paris Club rescheduling process.

Despite their good progress toward solving their debt problems, the debt indicators of middle-income developing countries are still high, and the threat of renewed debt-service problems has not subsided. And though some of them have successfully managed to re-enter the international capital markets, the continuance of their market access cannot be taken for granted, because they have yet to meet some of the necessary conditions. Therefore, the importance of sustained policy implementation cannot be overemphasized, as it will give their economies the resilience to react both to the negative shifts in external financing and to large net capital inflows endangering the stabilization process. It is important to note that, over the past decade, some of the largest debtor countries have been able to avoid debt-servicing difficulties. Their success in weathering shifts in market perceptions relative to political or economic setbacks is reflected by their sustained access and more favorable debt indicators, compared with those of the middle-income countries that have reentered the markets via rescheduling.

Many lower middle-income and low-income countries have made far less progress toward resolving their debt problems. There are a few lower middle-income countries whose especially difficult debt problems and slow progress toward external viability call for special attention from the international community. The recognition of these countries' special situation at the Munich Summit is a large step toward providing them with the financial support and relief they need to escape the cycle of continuous rescheduling. Here we would stress again that the wide variation among economies requires a country-by-country approach to the solution of debt problems, although most will uniformly be based on redoubled adjustment efforts.

The situation of the low-income developing countries, especially in Africa, is particularly bad. Their very heavy overall indebtedness and their desperate situation is clearest from the rise of their ratios of debt to exports, from a stunning 600 percent to nearly to 800 per cent during the past six years. The uneven record of policy implementation illustrates how uncertain prospects for external viability often undermine the adjustment effort and raise the question whether these countries will even succeed in decisively improving their situation.

It therefore appears urgent to take steps aimed not just at slowing the deterioration of these countries' debt situation, but also at actually improving it. This can most appropriately be done through the combined efforts of multilateral institutions and official bilateral creditors, as the bulk of the external debt of the lowest-income countries is owed to these two types of creditors. The issue has a particular urgency just now, since, as noted recently in the Financial Times, economic ruin and political disintegration face a number of African countries that lost much of their external support when their geopolitical importance disappeared with the Cold War. It is up to the international community to halt this process, which can best be done through cooperative international support.

Such an initiative would have several advantages. First, it would revive the external viability prospects of a number of countries that would then be more willing to begin or continue implementing much-needed adjustment and reform policies. And second, it would provide economies of scale and efficiency by ensuring that the various instruments used in those different domains are working together and not at cross purposes.

There are presently several such instruments: the ESAF window and a possible successor arrangement of concessional Fund assistance; the IDA window of the World Bank; and the standard approach worked out by Paris Club creditors for dealing with low-income countries' bilateral debt. Some ODA resources will also be shifted to low-income countries, now that the OECD "Consensus" arrangement has amended the guidelines on tied aid to better-off developing countries. A more active use of debt-for-equity conversions would directly increase resources for growth.

A third and indirect advantage of aid coordination is that it offers a new way of substantially reducing the Fund's arrears problem. It would thus be a timely complement to the Third Amendment of the Fund's Articles of Agreement, which will soon become effective. It is no coincidence that over 50 percent of the total debt of the countries with Paris Club rescheduling is owed by five countries that were in arrears to the Fund, and that three of them--Sudan, Zaire, and Somalia--still have to settle those arrears.

We wish it clearly understood, however, that we do not favor devising a single initiative for all low-income countries as a group. There is too great a diversity in countries' circumstances and experience to attempt anything but a case-by-case approach.

Mr. Mwananshiku made the following statement:

Let me begin by endorsing the proposal that the Executive Board should continue to review issues of external indebtedness on an annual basis. Indeed, as others have suggested, a biannual basis would be even more preferable. This is because the debt problem remains a crisis for a large number of countries. The difficult circumstances of low-income countries, the majority of which are in sub-Saharan Africa, cannot be overemphasized. The lesson of the past few years is that an early return to external viability for a large number of countries depends on progress toward a definitive reduction in their stock of debt in line with their ability to pay.

There is an emerging consensus that the debt strategy has succeeded in virtually eliminating systemic risks to the international financial system. A number of middle-income countries, especially in Latin America, have made considerable progress toward restructuring their debts and normalizing relations with their creditors. Perhaps more importantly, some of these countries have even re-entered the international capital markets.

While these are notable cases of success of the debt strategy, a large number have experienced a worsening situation, despite repeated debt rescheduling and recent attempts toward more comprehensive restructuring. For instance, low-income countries have experienced a sharp increase in the debt/export ratio (600 to 800 percent), and the interest ratio has risen 34 percent between 1986 and 1991. Meanwhile, the average debt- service ratio for the group remains high, at 21 percent, despite increasing concessionality in debt-rescheduling terms.

The difficulty in resolving the debt overhang of the low-income countries results from a combination of factors that are mainly beyond the control of the authorities. These include the sharp and secular decline in the terms of trade and the initial output losses associated with the implementation of macroeconomic stabilization programs especially in the 1980s.

Against this background, we welcome the decision by the Paris Club to provide enhanced concessions. A 50 percent net present-value reduction in debt-service outlays would go a long way toward resolving the problem and would facilitate the attainment of external viability in some of these countries. The key question is whether the new menu of enhanced concessions would be sufficient to achieve a sustained improvement in the debt situation of these countries. For the majority of the low-income countries, the solution lies in a substantial, and more generous, treatment that would significantly reduce the debt-service outlays. As was suggested during the latest discussion on the world economic outlook, the Paris Club should consider accelerating the review of the debt positions of low-income countries, instead of waiting for three to four years. It is unfortunate that attempts by creditors to offer deeper concessions and more improved terms are sometimes hampered by burden sharing concerns to determine the net present value equivalence of the various options.

In the case of direct financial assistance in support of adjustment programs, we welcome the fact that donors have been able to step up their efforts, with an increasing share being in the form of outright grants or highly concessional loans. It is clear that the underlying weakness of the economic base and the balance of payments difficulties mean that these countries will continue to rely on increased concessional funding, including, in particular, non-debt-creating flows.

However, a number of problems have emerged that tend to hinder the timely disbursement of the full amounts pledged, for example, in the context of the Consultative Groups. The sheer weight of administering economic adjustment with usually weak administrations in the recipient countries, and the inherent difficulty in implementing Fund-supported adjustment programs, mean that disbursements have often been intermittent and have substantially fallen short of programmed support. Moreover, recipient countries have encountered problems associated with complying with disparate donor procedures. Recently, noneconomic conditions that offer indeterminate solutions have led to withholding of such support to some countries. The combination of all these factors has undoubtedly impeded the smooth implementation of adjustment programs.

The need for sound policies and sustained economic adjustment is no longer at issue, as most of the heavily indebted countries are already implementing far-reaching reforms. The problem is how to maintain the momentum. This is why emphasis should now be placed on the expansion of the productive capacity to strengthen the balance of payments and to enhance the ability to service debt obligations from domestically generated resources. This would also improve, over time, the resilience of these economies to withstand exogenous shocks.

A word on the case of Nigeria. The discussion on cases like that of Nigeria, which has been listed as a low-income country and is eligible for ODA financial support, has been limited. Given the staff's recommendation for a case-by-case approach for the diverse circumstances of the low-income countries, it should be emphasized that the solution to Nigeria's heavy debt burden would also require extending the recent enhanced concessions in its debt rescheduling.

Finally, continued Fund involvement will be crucial if low-income countries are to solve their debt problems. The Fund should help them to nurture the adjustment process and the donor community should continue to offer generous assistance.

Mr. Lee made the following statement:

The latest report on the external debt situation provides us with a clear overview of general trends and developments on the debt front. By and large, the picture that emerges is an encouraging one, with increasingly more countries being able to sustain their economic adjustment, which has facilitated and, in turn, been reinforced by, comprehensive settlement of past debt overhangs.

An increasing number of middle-income countries have now graduated or have good prospects for graduating from the Paris Club rescheduling process. Meanwhile, private capital markets are more open to access for the more successful countries, albeit on a qualitatively different and, for now, somewhat limited basis.

Yet amid this solid news of progress, it may be relevant to reaffirm and fortify international commitment to the cooperative approach for dealing with the debt crisis. It would truly be unfortunate if, having gone this far and having paid the price for this long, we were to prematurely lower our guard, lulled by recent successes.

Our task is not yet over. First, the majority of heavily indebted countries, mostly comprising the lower middle-income and the low-income countries, remain stymied. To resolve these outstanding cases will require perhaps even greater imagination and cooperation. In this context, we welcome the most recent operational innovations that have emerged from both the Paris Club and the commercial bank restructuring processes. It is important that we stand ready to expand the policy envelope of the doable.

Our second concern is that the commercial bank restructuring processes may yet be derailed, for those agreements that now appear to be in hand and for those still to come, by lack of timely action, either in appropriately adopting Fund operational policies or in communicating these effectively to the relevant parties. Here we are referring to the long-festering segmentation issue and the suddenly vexing issue of the mandatory prepayment clauses.

The logical action required on the first has long been defined. The second issue, however, is more complex. At the minimum, however, the major industrial country authorities have the complementary responsibility of not only asserting the Fund's preferred creditor status, but also ensuring that those banks that fall within their jurisdictions understand this and act accordingly.

Finally, it is important that we maintain close surveillance of the overall debt reorganization process to enable us to be in an institutional position to guide the further evolution of the debt strategy from a crisis management mode to a more proactive stance aimed at preventing a relapse and renewal of the debt crisis. In this regard, it is for us to remain engaged in assessing the threats and opportunities, especially those offered by renewal of access to private capital markets.

We should seek to ensure that best practices are being pursued by debtor governments to mobilize and manage new capital flows. We should further ensure that market imperfections that have in the past led to sharp market corrections are being minimized through measures that ensure timely and accurate transmission of information on risks and returns. Lastly, we need to continue to influence policymaking in the major countries to the extent that their macroeconomic and regulatory policies help shape the magnitude, direction, and volatility of capital flows.

Mr. Santos made the following statement:

I welcome today's discussion on the financing for developing countries and their debt situation, as it is taking place at a time when the debt strategy has reached a turning point for the better. I can endorse most of the conclusions and recommendations made by the staff in the excellent and comprehensive paper. Like previous speakers, we acknowledge the general progress made under the debt strategy over the past ten years by several heavily indebted countries--particularly in the Western Hemisphere--that have been able to reduce significantly their debt burden. We note also the recent increase in the number of countries graduating from the debt rescheduling process. This progress could not have been possible without the improved domestic macroeconomic environment brought about by appropriate economic and financial policies in the debtor countries and the support provided by multilateral institutions and official creditors.

The various initiatives that have been taken recently by official creditors, as well as those new measures being implemented by the Paris Club, in particular the enhanced Toronto terms, have also been instrumental in bringing about this general improvement in the debt situation. However, as welcome as this development may be, it should not be allowed to detract attention from the plight of the lower middle-income and low-income countries still confronted with heavy debt burdens. As recognized by the staff and the Board during previous discussions on the debt strategy and the world economic outlook, progress in alleviating the debt burden of the low-income countries has been disappointingly slow, and among those countries the debt burden of African countries remains unbearably heavy. It is, indeed, a cause for great concern to note that, despite the various measures taken by creditors to reduce debt through ODA, debt forgiveness, and concessional rescheduling, the ratio of debt to exports for those countries increased from about 600 per cent in 1986 to 800 percent in 1991. Moreover, the scheduled debt-service ratio remained high, averaging 34 per cent, during the period 1986-1991.

It is therefore of paramount importance that more appropriate conditions, going far beyond the current rescheduling terms and involving a substantial reduction on the stock of the debt, be adopted for these countries. Moreover, since the share of the debt to multilateral institutions in their total debt is increasing, a comprehensive approach, enabling these countries to deal with these debts, will need to be put in place. In this respect, Table 3 on page 17 of the report is telling. Those countries that have improved their debt situation benefited from significant debt-reduction operations and from improved export performance. On the other hand, for countries whose debt situation has deteriorated, the small improvement in export performance recorded was inhibited by the increase in the stock of debt. This underscores the need to reduce the stock of debt of this category of countries to a level that is compatible with the achievement of viability in the medium term.

In this context, we welcome the Munich Summit communiqué of last July, which encourages the Paris Club to give due consideration to the special case of lower middle-income countries. In view of the unsustainable level of their debt, we welcome the consideration by the Paris Club of a stock of debt approach after a period of three to four years. This is certainly a step in the right direction. However, for countries implementing strong adjustment programs, Paris Club members should consider accelerating the stock approach so as to further improve the medium-term prospects of these countries.

I do not have many comments to make on the issues suggested by the staff for discussion, because the staff itself has made the points already. Although we agree with the staff that sustained policy implementation is a prerequisite for debt reduction and debt-restructuring packages, it is, however, evident that, even with strong policy performance, the process of completing comprehensive debt packages could be a lengthy one. This is particularly the case for low-income countries for which progress toward debt restructuring has been slow for the various reasons that are well explained by the staff on page 14 of the report.

In this regard, the staff is right to point out that lack of progress with private creditors is likely to have an adverse impact on the debtors by affecting access to, and conditions of, short-term trade credits. Moreover, restrictive conditions would likely be imposed on project financing and suppliers' credits. This underscores the need for creditors, multilateral institutions, and donors to contribute to the promotion of appropriate debt-restructuring packages consistent with the achievement of the medium-term external viability objectives. With regard to creditor countries, they could help this process by reconsidering the removal of the remaining regulatory and tax constraints that have tended to slow the formulation of such packages.

Finally, we endorse the proposal made by the staff that debt and external financing issues be reviewed on an annual basis. However, and as Mr. Dorrington commented, we should be ready to review whenever the situation warrants.

Mr. Kabbaj made the following statement:

We welcome this timely review of financing needs of the developing countries and their debt situation on the basis of a set of high-quality and well-documented staff papers, which will no doubt be very useful to all of our authorities. It is heartening to note that this review, which coincides with the tenth anniversary of the onset of the debt crisis, rightly concludes that progress was made by the debtor countries, as well as by the international financial community, in addressing this crisis. In this regard, the Fund, particularly management and staff, has undoubtedly played a decisive role at crucial and difficult moments of the crisis.

While acknowledging the progress registered so far in the form of a number of agreements with commercial banks on debt-rescheduling packages and in the regaining by some middle-income countries of access to spontaneous financing, the situation of many debtor countries remains fragile. Moreover, this progress was achieved in a period of relatively healthy conditions in the world economy and world trade and of sharply declining interest rates. It is far from certain, as we just noted from our discussion of the world economic outlook, that these conditions will not be dramatically changed. The downward risks for the world economy, the uncertainties regarding the conclusion of the Uruguay Round, as well as the multiplication of bilateral trade agreements, the upward risks on interest rates, and the instability in exchange and financial markets, are all matters of concern for developing countries in general and debtor countries in particular. Should these risks materialize, the prospects for growth for these countries could be severely hampered, making their debt servicing again problematic.

For these reasons, it is imperative, if we are to avoid such an unwarranted outcome, that debtor countries and the international financial community, including the Fund, give their full attention to the fulfillment of the objectives implicit in the three pillars, as we see them, of the debt strategy. First among these is the perseverance of debtor countries in the implementation of sound macroeconomic policies and deep structural reforms. Second, these efforts should be rewarded by the financial international community by adequate and timely financial support, including, where warranted, debt and debt-service reduction. Third, as evident from our just-concluded world economic outlook discussion, the debt strategy cannot work if the external economic environment is not supportive. It is thus of the essence that industrial countries promote the emergence of such an environment by intensifying their economic cooperation and by opening up their trade and financial markets to developing countries.

Turning now to the issues for consideration, as listed on pages 27 and 28 of the main staff paper, let me first state that we broadly concur with the conclusions of the staff, with the exception of the proposal to review once a year the issues related to the debt situation. Our position is similar to that of Mrs. Martel in this regard.

Regarding the recent progress toward bank debt restructuring by some major debtors, we encourage debtor countries that have not yet reached agreement with their commercial banks to persevere in the implementation of strong growth-oriented adjustment programs, so as to be in a position to compete for the scarce resources reserved for debt and debt-service enhancements. We agree in this connection that the phased approach, such as in the case of

Brazil, should be pursued, if necessary, although we believe it creates some uncertainties. While on this field of bank debt restructuring, we hope that the progress registered so far will not be jeopardized by an early reversal of the downward trend of interest rates, which clearly helped in the recent past many developing countries accelerate their recovery.

As to relations with official creditors, we would like to welcome the flexibility shown by the Paris Club toward various categories of debtor countries. Toronto and Trinidad terms for low-income countries, as well as the Houston terms for lower middle-income countries, are all steps in the right direction. But much remains to be done for most of these countries. In this regard, we concur with the staff that, for low-income countries, more needs to be done, particularly in sub-Saharan Africa. The net present value reduction of 50 percent suggested should be the norm, and more generous treatment should be granted as warranted, provided these recipient countries continue to implement strong adjustment programs.

Regarding middle-income countries, the progress is clearer, but a few of them, particularly the lower-income category, still require attention. We appeal to Paris Club creditors to heed the Munich Summit's call to the recognition of the special situation of these countries and to work with them in designing financial schemes likely to graduate them in a reasonable time frame from exceptional financing, provided of course they implement strong and sustained adjustment efforts.

We call again on the financial international community to continue to give its attention to the case of some middle-income heavily indebted countries that, despite difficult problems, have kept their debt servicing current. Such attention would prevent the joining by these countries of the long list of rescheduling or non-debt-servicing countries. Similarly the same attention should be given to countries that recently graduated, or are in the process of graduating, from exceptional financing, so as to put their growth prospect on a more solid footing and thus consolidate their debt situation, which generally remains fragile.

Finally, on the question of private market flows to developing countries, including non-debt-creating flows, it is encouraging to note that, in many cases, progress was made in liberalizing recipient domestic financial markets toward the creation of a more hospitable environment. We call again on the Fund and other financial institutions, particularly the World Bank, to develop their technical assistance resources in these sophisticated fields.

Mr. Quirós made the following statement:

We agree with the staff conclusion that there has been a rapid change in the debt situation of developing countries over the recent past.

It is clear from the report that, among indebted middle-income countries, those that have made the most progress have traveled one of two roads. A few originally responded to their circumstances by strong adjustment measures and structural reforms rather than debt restructuring. Despite a short period of reduced access to capital markets, these countries were still able to access spontaneous resource flows, and, as the confidence in the sustainability of their adjustment efforts improved, market access has strengthened.

One the other hand, a number of other middle-income indebted countries, whose major creditors were the commercial banks, were able to implement both strong macroeconomic adjustment reforms and avail themselves of a variety of debt-restructuring packages. As a result, at the conclusion of current debt operations for Argentina, Brazil, and the Philippines, a full 75 percent of the end-1989 stock of commercial bank debt would have been restructured. Other middle-income indebted countries benefited from Paris Club rescheduling, to the extent that several have graduated from reliance on exceptional financing. We note that the Fund and the World Bank played no small role in the modalities of the new financial arrangements, and both institutions were certainly critical in the formulation of economic policies that have led to improvement in the macroeconomic framework of most of these countries.

The substantial benefit of an improved economic environment has been the renewal of access of many middle-income countries to spontaneous private flows and new official flows. More importantly, the form of these flows, mostly equity, is a welcome development. We note the staff's concerns with respect to the sustainability of the flows and the possibility of investor portfolios becoming concentrated. These concerns are valid.

The staff report correctly emphasizes that, despite significant differences between present conditions in the economies of market re-entrants and those that prevailed ten years ago, these countries should be cautious regarding their indebtedness. Even if, as is common at present, capital flows are mostly private sector transactions, the vulnerability of the new market entrants to external conditions is still significant. Among these conditions, U.S. interest rates are mostly noteworthy. Consequently, caution in this area is definitely called for, and one may argue that even the imposition of direct controls to foreign borrowing may be warranted when capital inflows are of an exclusively short-term nature.

In any event, it is clear that sound economic policies that engender confidence are the key to foreign credit market access. Conversely, it would seem that those middle-income countries whose track record of performance is either mixed or not convincing could continue to experience low levels of access to international market flows. There is, however, still a need for a medium-term financing strategy to rebuild external payments viability for many of these countries. To this end, we may have to increase the resources available to the international development finance institutions, as in the future many of these countries will have to rely on this form of financing as opposed to commercial borrowing.

With respect to the lower middle-income countries, the progress has been mixed. Several of these countries have benefited by debt-reduction exercises, others from exceptional restructuring under Paris Club rescheduling and, in one case, even debt forgiveness. As with the middle-income indebted countries, those countries whose track record of policy performance has not been strong have the greatest difficulty not only in accessing new resources but, more importantly, in resolving their debt problems through restructuring with commercial banks and the Paris Club. Clearly, a two-track approach is necessary. On the one hand, stronger efforts at adjustment and reform are required, but in many cases greater flexibility is also required from creditors. In this context we welcome the communiqué of the Munich Summit, recognizing the need to apply flexibility on a case-by-case basis in respect of reschedulings of lower middle-income countries.

It would seem that the area of least progress is in respect of the low-income indebted countries. There are several factors at work here. The first is the poverty of these countries. It is the original constraint. Second, the proportion of commercial bank debt in their overall indebtedness tends to be low. This, therefore, rules out any substantial benefits from the menu of commercial debt-restructuring options available to middle-income and lower middle-income countries. Third, the benefits of a Paris Club rescheduling are relatively short term in contrast to the protracted economic difficulties of the countries. Finally, over time, in some countries, as all other forms of financing have declined, debt to multilaterals is becoming a larger proportion of total debt; this debt will not be subject to restructuring.

We were, therefore, pleased at the new menu of options available under Paris Club rescheduling for low-income countries; we would urge the more rapid extension of the menu to deserving members, and, while we support considering a stock of debt approach after a period of three to four years, we wonder whether a shorter period of two years may not be more appropriate. We agree with the staff that the Fund needs to develop a clear and early understanding with creditors on the new modalities of support, so that this institution, in turn, can also tailor its support for these countries.

Finally, and in respect of the indebted low-income countries, it is clear that new debt-creating resources will not be beneficial to these members. Unpopular as this may be, we would urge the more developed countries, therefore, to strengthen their concessional flows to these countries to support their efforts at economic recovery. We must keep in mind that the debt situation is undoubtedly much better than it was at any time in the last ten years, but the participants in the debt problem are by no means out of the woods.

Mr. Posthumus said that he supported the staff proposal to discuss the debt situation once a year, rather than twice. He wished to pose two questions. The first one concerned the lower middle-income countries, whose official bilateral debt was discussed on pages 14 and 15. As he understood it, on page 16 the staff basically concluded that bilateral official creditors were doing enough for Bulgaria, and that the private creditors should do something in terms of appropriate debt reduction. Bulgaria, together with Côte d'Ivoire, had the largest scheduled debt service in 1991. He wondered why that text was written as it was.

His second question concerned segmentation, Mr. Posthumus remarked. He agreed with the staff suggestion not to change the policy on segmentation. Still, he wondered what the meaning was of the cryptic statement on page 2 that current developments with respect to some bank packages "seem to confirm the constraints that can arise from the segmentation rules." Were the segmentation rules not meant to give rise to constraint? If not, the segmentation rules were unnecessary.

Mr. von Stenglin made the following statement:

The staff paper provides an excellent summary of recent developments in the international debt situation. We welcome the significant progress several countries have made toward overcoming their unsustainable high external indebtedness. There is no doubt that adequate financing, including restructuring, if necessary, under concessionary conditions, and debt relief have contributed to these encouraging developments. However, the world economic outlook paper and the paper before us clearly illustrate that the fundamental factor behind the improved monetary situation has been prudent fiscal consolidation, not monetary policy and structural reforms. These countries' own adjustment efforts were a precondition for relatively favorable growth performance, and it is particularly remarkable that the growth in the industrial countries at the same time remained subdued. The lesson to be drawn is that comprehensive adjustment policies can be successful even if the external environment is less conducive to economic growth.

It is disappointing that a number of countries have not seized the opportunity to adjust their economies effectively in spite of debt relief and other international support. Debtor countries should be aware that there will be increasing competition for private and official funds. Countries with convincing economic programs have the best chance to attract external flows. Without doubt, establishing a track record of partial payments is likely to accelerate improved bank negotiations. In this context, a phased approach to the delivery of enhancements would be helpful in the case of insufficient up-front resources available for debt applications.

Having said that, let me briefly turn to some specific points. First, we agree with the staff's implicit assessment that there is no need to modify the guidelines for the Fund's involvement in the debt strategy or the guidelines for set-asides and segmentation, and I share the view of Mr. Dawson that they should remain unchanged, as they already provide some flexibility on a case-by-case basis.

Second, on monetary prepayment loss and bank agreements, my authorities fully endorse the staff conclusion that these clauses should avoid any link between early repurchases pursuant to expectation of obligations established by Fund and Bank repayments.

Third, the recent capital inflows into a number of developing countries tend to cause problems for monetary policy in the recipient countries, as the monetary authorities are confronted with the dilemma. On the one hand, persistent high inflation rates are indicating that there is need to tighten the monetary stance. On the other hand, rising interest rates due to a steadier policy course could attract further capital inflows and therefore increase difficulties and the burden for monetary policy. An adequate policy response could be the implementation of macroeconomic adjustment and structural reform programs aimed at creating a stable domestic financial environment and making domestic producers more competitive with world markets. This could open the way for an appreciation of the domestic currency without undue loss of competitiveness. I wonder whether it might be helpful to examine this issue in more detail.

Finally, I strongly endorse the staff recommendation to review these debt and financing issues on an annual basis.

Mr. Fuleihan made the following statement:

The staff paper for today's discussion highlights the recent strides taken toward resolving the debt crisis of the 1980s. The underlying theme of the staff paper is that sustained strong macroeconomic adjustment and structural reform programs, coupled with appropriate commercial and official debt restructuring, can lead a country out of its debt difficulties.

In this respect, it is encouraging to note that significant progress toward bank debt restructuring has occurred in a number of countries, and that several middle-income countries have regained access to international capital markets. Much of this progress is due to impressive economic adjustment policies, which induced substantial inflow of private capital and mobilized official support for the debt operations. However, these countries are now confronted with the challenges of success, both in terms of sustaining large capital inflows and absorbing these inflows without thwarting financial stability.

Clearly, priority must be given to consolidating and accelerating economic adjustment, as well as ensuring that capital inflows are directed to productive and internationally competitive industries. Moreover, as the staff suggests, it is important to expand the investor base, while ensuring that adequate account of risks is taken. Here, borrowing countries need to ensure ample information dissemination, while creditor countries should modify regulatory regimes that discourage holding of claims on market re-entrant countries.

Turning to official debt, several positive developments have taken place, including the Paris Club's incorporation of enhanced concessions in reschedulings for low-income countries, and the decision to consider the stock approach in dealing with these countries' bilateral debt after a period of three to four years. Moreover, the amendment of OECD guidelines on tied aid credits to "better-off" developing countries is welcome, as it will improve project evaluation in these countries and will allow a shift in ODA resources to the poorest countries. Nevertheless, I share the staff's concern regarding the increased use of escrow accounts, which weakens the link between the implementation of appropriate policies and the availability of new credits, and which introduces a potential bias against creditors that do not insist on them. Hence, the staff should continue to highlight the drawbacks of these accounts and discourage their use.

Finally, notwithstanding the progress achieved to date, many countries continue to face severe debt-servicing problems. These countries will need to implement credible and strong medium-term economic adjustment programs. However, their attainment of external viability will crucially depend on continued support from official creditors and debt reduction agreements with private creditors. In this context, the Paris Club's recognition of the special situation of lower middle-income countries, which are not eligible for enhanced concessions, should prove very helpful. Moreover, the recent evolution of Paris Club policies toward low-income countries, if complemented by non-debt-creating, long-term financing, will pave the way for these countries to resolve their debt problems.

Mr. Chatah said that he agreed with other speakers that, on the tenth anniversary of the debt crisis, there was no doubt that the debt picture was significantly better than it had been since the summer of 1982. The fact that a good part of the main paper dealt with what could be called post-graduation issues was a reflection of the progress that had been achieved. The proposal to hold the debt discussion on an annual basis also was indicative of the progress that had been made. He could support that proposal, on the understanding that operational issues would be brought to the Board as and when necessary.

However, it was clear, as previous speakers had noted, that too many countries continued to have debt burdens that constituted obstacles to recovery and external viability, Mr. Chatah continued. That was true of not only many low-income countries, but also a significant number of middle-income countries. For the lower middle-income countries, in particular, the Munich Summit communiqué, urging the Paris Club to consider special approaches, was a positive development. At the same time, he, like Mr. Dawson, felt somewhat uneasy about the presentation on pages 14-18, where an attempt was made to stylize the presentation by reviewing the list of 14 countries and then appearing to decide in which cases special needs did and did not exist. There might well be a moral hazard problem, as Mr. Dawson had remarked, but there was also a problem in suggesting that, in some cases, there was no need for special treatment, or that perhaps another solution existed. In one case, for example, the staff suggested that the solution was to "restore traditional grant flows." That might be so, and that was acceptable, but he was not confident that it was appropriate to specify countries toward which the Paris Club should pursue a certain line.

Mr. Deng made the following statement:

At the outset, I would like to express our gratitude to the staff for preparing the excellent and useful papers for today's discussion. The subject before us today, namely, financing developing countries and their debt situation, has long been one of the major areas of concern in the study of world economic developments. Thanks to the concerted efforts of the international community on various debt reduction initiatives over the past several years, as well as the adjustment efforts made by many debtor countries, the severity of debt situation--which had been a major threat to the world economy--has been reduced significantly.

Recent progress has been impressive in a number of areas: some countries have agreed on terms with their commercial creditors on bank debt restructuring packages, which, in turn, have been supported by improved policies and performance in those countries; an increasing number of debtor countries have benefited from the new rescheduling terms initiated by Paris Club creditors in late 1991; recent inflows of private capital into certain middle-income countries where the trend is continuing will help with growth of their own resources; and official bilateral financing, which has played a key role in debt reduction, continues to rise, as it has done, since 1986.

Notwithstanding these encouraging developments, much remains to be done to secure steady progress toward the implementation of debt-reduction strategy. As the staff report clearly indicates, while recent progress has so far concentrated on major middle-income countries, a lack of progress, and even deterioration, has been evident in lower middle-income and low-income countries in servicing their external debt. In this context, the staff provides a comprehensive and well-balanced analysis of the factors contributing to the deteriorated debt situation facing these countries and to possible solutions. While I am in general agreement with the staff's assessment, I wish to stress more the impact of external developments on the debtor countries concerned. Although it is a fact that success for a number of major debtor countries in debt reduction is due to their own strenuous efforts in implementing sound adjustment policies, it should be emphasized that adverse external developments, more often than not, can seriously damage these countries' adjustment efforts and worsen an already difficult situation. In such cases, the problem can be solved only with the help of external financing.

With the above in mind, I wish to emphasize only one point. The slow progress in debt-reduction for some lower middle-income countries and low-income countries, as a whole, points to the need for renewed efforts to enhance the debt-reduction strategy. The fact that some of these countries are still confronted with protracted debt problems and severe difficulties in debt servicing indicates that some further options for debt relief should be taken into consideration. In the current circumstances, in particular, when their adjustment efforts are often disturbed by exogenous factors, the adjustment policies cannot be sustained without renewed support for debt relief. Concerted efforts by the international community should, therefore, be continued to provide further debt relief for these countries. In this connection, we particularly welcome Paris Club creditors' recent initiative of rescheduling for the low-income countries, and we also support the case-by-case approach to reach a specific debt-reduction agreement to accommodate the diversity of country circumstances. It is hoped that official bilateral support for debt relief, which has provided significant benefit to the debtor countries, will be further strengthened.

Mr. Arora made the following statement:

I wish to make two main points. There is a note of satisfaction with the conclusion that the debt crisis has either gone away or is about to go away. Because it was perceived largely as a Latin American problem, it is not surprising that a recent article in the Washington Post declared officially that the debt crisis was over.

I would suggest that, in our work on the debt situation, we should apply only the simple criterion of the net transfer of resources from the developing countries to the developed countries in judging whether we are anywhere near solving the debt problem. The different categories of countries, like the Latin American countries, the low middle-income countries, and sub-Saharan countries, as Mr. Ismael pointed out, have not eliminated their debt problems but have reduced their debt service. In considering that criterion, one would probably have to conclude that we have a long way to go, despite the commercial banks' arrangements and despite the fact that the Paris Club has been very generous and has allowed many countries to progress in the debt strategy.

I would therefore say that, if we look at the debt situation from this point of view, we may have to suggest various other remedies to resolve the debt crisis. I am not sure whether I would agree with Mr. Dawson that the Fund should give up its approach of classifying countries that need certain special attention. The Fund is the only institution that has the macroeconomic approach that enables it to judge whether a country or groups of countries similarly situated deserves some kind of special treatment.

In the wider context, the only way in which to reduce the debt burden eventually, so that many countries could gain external viability with growth, would be growth of the world economy itself. The industrial economies have to grow, and policies have to be found to ensure sustainable, reasonable growth, not simply growth as it is today.

A few speakers have referred to the Uruguay Round. We should go ahead with it. What about the existing restrictions that have hampered the countries that wish to expand their exports? The Uruguay Round will be completed eventually. Restrictions could be lifted immediately--that is something within our control. We do not have to wait for the Uruguay Round to lift those restrictions. In the medium-term perspective, it is clear that if restrictions remain, no amount of debt forgiveness will put these countries on the right track.

The Deputy Director of the Policy Development and Review Department remarked that a number of Directors had commented on the staff's analysis of the low-income and lower middle-income countries. Mr. Dawson had noted critically, and other speakers had commented less critically, the suggestions by the staff concerning the extent of debt reduction that might be needed. As Mr. Dawson had remarked, that decision would be taken in the Paris Club. The point the staff had wanted to make, and particularly with respect to the low-income countries, was that the situations of individual debtors were very diverse. In addition, apart from its concern for the countries themselves, the Fund had a direct interest in the outcome of the Paris Club deliberations and actions, in part because the Paris Club was also asking that there be appropriate arrangements with the Fund during the process in which the conditions for the Paris Club's operations were established. The staff felt that it was important to try to progress to a position at which there would be continued Fund involvement; particularly while the Paris Club was waiting for conditions to be established for its operations, there should be some degree of assurance that, when the operations were undertaken, the situation in individual countries would be viable. As Mr. Dawson had noted, there were other ways in which to assist countries other than through debt reduction. The staff had meant to emphasize its hope that the process of handling debt cases would ultimately lead to viable positions for debtor countries.

The reference to Bulgaria in the staff paper was meant not to comment on Bulgaria vis-à-vis the Paris Club, but rather to make the point that Bulgaria, in contrast to most of the other countries concerned, was very heavily indebted to banks, the Deputy Director of the Policy Development and Review department commented. In fact, bank debt accounted for 85 percent of Bulgaria's total debt. In that case, almost regardless of what the Paris Club might do, there would still be a significant bank debt problem that would have to be dealt with in order to restore viability in Bulgaria.

Mr. Posthumus responded that that point was well known and need not be emphasized. The important question to consider was whether different groups of creditors should treat a debtor country in different ways. That was obviously a Paris Club issue.

The Deputy Director of the Policy Development and Review Department noted that the staff had not been trying to make a point about comparability in referring to the case of Bulgaria. Rather, the staff had tried to make an analytical point.

The policy on the post-cutoff date was obviously a question for the Paris Club to address, but two points in that connection could be made, the Deputy Director said. First, post-cutoff date debt was not a significant part of the picture in most of the cases under review. Second, the creditors seemed to feel that the post-cutoff date had been very important in sustaining the process of new flows. The policy on the post-cutoff date should be approached cautiously, as it was a fulcrum for new flows.

The slow pace of the debt-reduction facility had been mentioned by Mr. Dorrington, the Deputy Director recalled. However, two cases seemed to be on the verge of coming to fruition, and a number of others were in the pipeline. Hence, while the facility had taken time to get going, it appeared to be gaining full steam, a situation that was particularly welcome for the low-income countries.

The staff was certainly trying to maintain current information on private capital stocks and flows, the Deputy Director said. That task was difficult, as new instruments were being employed, and systematically published information was not available on a number of activities. The staff would examine the available information and consider what might be done to develop more systematic and deeper reporting.

On the question of capital inflows, and particularly the difficulties they could pose for countries' debt problems, the Research Department had recently circulated a working paper on the subject, the Deputy Director remarked. In addition, the staff was working on a further analytical paper that should provide some insights into the lessons to be learned about how countries had dealt with the problem of capital inflows, and possibly further suggestions about how they should deal with that problem.

The staff would take another look at the reference in the main staff paper to registration of foreign direct investment and the references in the background papers to the privatization program, the Deputy Director said.

As Mr. Posthumus had remarked, the segmentation rules were meant to provide constraints, the Deputy Director of the Policy Development and Reviews Department commented. In earlier discussions, a number of Directors had expressed concern that the rules could, in fact, provide constraints and that there should be flexibility in applying the rules. The staff had been asked to look again at the rules and, if possible, to suggest new ideas. The reference in the main paper to which Mr. Posthumus had referred was meant merely to say that the staff did not have new thoughts, and to report that there was a case in progress in which constraints were, in fact, likely to arise.

The Chairman made the following summing up:

Executive Directors noted that the substantial progress made by a number of countries toward resolving their debt difficulties was a welcome confirmation of the effectiveness of the debt strategy implemented and adapted over the past decade. In general terms, Directors considered that the instruments and approaches in place or under active consideration by creditors opened the way toward a comprehensive resolution of the debt problem, provided that a broadly supportive international environment with open and growing markets prevailed, and that debtors persevered with strong adjustment efforts. At the same time, despite growing evidence of success, Directors stressed that many individual countries still faced acute problems that would require the continuing close attention of the international community as well as of the debtors themselves. Several Directors noted the need for a continued flexible and prudent application of the guidelines for the Fund's involvement in the debt strategy, given the diversity of cases.

Turning to more specific aspects of the debt situation, Directors noted recent progress toward bank debt restructuring agreements, opening the prospect that such agreements would soon be reached by countries accounting for the great bulk of the bank debt of rescheduling countries. Nonetheless, many individual countries had yet to progress very far toward normalization of relations with their bank creditors, and Directors urged both members and banks to do their part in moving the process forward. Advancing in those cases would require, foremost, sustained policy implementation to create an environment in which debt operations could contribute to achieving external viability. In some cases, however, even where a track record of performance was established, resources available immediately might fall short of requirements for financing a comprehensive debt package. As noted in earlier reviews, phased debt operations could prove desirable in such circumstances, and Directors were encouraged that progress toward phased operations had recently been made in at least one important case, although it was also pointed out that this approach might not be easily emulated in other cases. They emphasized that progress toward regularization of relations with bank creditors would also depend on the debtor countries showing commitment to this objective, including through establishing a track record of payments, and it would be important that financing plans made sufficient allowance for such payments to occur.

Directors observed that bilateral official creditors' strategy of combining new financing with cash-flow relief had proven successful in an increasing number of middle-income countries that had exited, or had good prospects for exiting, from the Paris Club rescheduling process. Many Directors stressed, however, that a few lower middle-income countries faced particularly difficult debt problems and would likely require both restructuring of commercial bank debt and special treatment of their debt to bilateral official creditors in order to achieve major progress toward external viability. Highly uncertain prospects for external viability potentially undermined countries' adjustment efforts and posed important questions regarding Fund support and related financing assurances. Directors thus welcomed the Munich Summit's encouragement of Paris Club creditors to recognize the special situation of these countries. They hoped that creditors could work expeditiously to design approaches that would provide these countries with the prospect of a clear exit from reschedulings on the basis of strong and sustained adjustment efforts.

As regards low-income countries, Directors noted the sustained and increasingly concessional support that had been provided by official creditors and donors. They welcomed the Paris Club's recent adoption of enhanced concessions and its preparedness to consider stock of debt operations after a period of three to four years of successful performance by debtor countries. Directors observed the diversity of country circumstances in the low-income group. Appropriately tailored debt stock agreements with the Paris Club, combined with steps to normalize relations with private creditors, would substantially enhance the prospect that the countries concerned would attain external viability with sustained implementation of appropriately ambitious adjustment programs. This prospect was of direct relevance to the Fund in considering support for these countries as they sought to establish the track record needed to qualify for exit restructuring by the Paris Club. In this context, the growing importance of ESAF and ESAF-type Fund support was noted.

Directors welcomed the resumption of private market flows to a number of developing countries, but noted that this development also raised policy concerns. These concerns underlined the importance of sound economic policies in the recipient countries as well as of steps to ensure that these flows were taking place in a framework that promoted adequate dissemination of information and matching of risk and returns. The staff was encouraged to examine the possible role of the Fund in the dissemination of such information.

Directors also encouraged countries to pursue institutional reforms that would improve the availability of information and provide adequate investor protection. Several Directors suggested that creditor countries could also consider whether there was further scope for modification of regulatory regimes in countries where improvements in creditworthiness had occurred, while being careful to maintain adequate prudential standards. Finally, it was noted that the international financial community should adequately recognize and support the efforts of those highly indebted countries that had commendably avoided debt-servicing difficulties.

Directors agreed that, following the present review, the Executive Board would consider debt and external financing issues on an annual rather than semiannual basis for as long as necessary. Significant new developments or operational issues would, of course, be brought to the Board's attention as the need arose.

APPROVED: April 12, 1993

LEO VAN HOUTVEN
Secretary