INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/48

10:10 a.m., April 8, 1992

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

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
	L. E. N. Fernando
	Wei B.
C. S. Clark	
	Q. M. Krosby
	J. M. Abbott, Temporary
	J. Prader
E. A. Evans	R. L. Knight
R. Filosa	
M. Finaish	A. F. Mohammed
	J. A. Solheim
	N. Tabata
B. Goos	
J. E. Ismael	T. Sirivedhin
A. Kafka	J. C. Jaramillo
J.-P. Landau	
A. Mirakhor	O. Kabbaj
	L. J. Mwananshiku
D. Peretz	
G. A. Posthumus	
C. V. Santos	
A. Torres	R. Marino
A. Végh	

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

Also Present:
African Department: J. A. Clément. Central Asia Department: Y. Horiguchi, M. Schultz-Ghattas. Central Banking Department: M. Guitián, Associate Director. European I Department: M. Russo, Director. European II Department: J. Odling-Smee, Director; T. Shikado, T. A. Wolf. Exchange and Trade Relations Department: J. T. Boorman, Director; J. Ferrán, Deputy Director; A. Basu, C. Y. A. Collyns. External Relations Department: S. J. Anjaria, Director; P. J. Bradley, A. Mountford, M. Seeger. Fiscal Affairs Department: V. Tanzi, Director; A. Tait, Deputy Director; J. P. Horne. Legal Department: W. E. Holder, Deputy General Counsel; K. Sono. Research Department: M. Mussa, Economic Counsellor and Director; M. Goldstein, Deputy Director; L. Bartolini, P. B. Clark, D. T. Coe, P. J. Gajdeczka, S. J. Gorne, G. Hacche, M. D. Knight, M. S. Kumar, F. Larsen, G. J. Schinasi, S. A. Symansky. Secretary's Department: A. Leipold. Southeast Asia and Pacific Department: K. Saito, Director. Treasurer's Department: D. Williams, Treasurer; D. Gupta, A. J. Richards, O. Roncesvalles, S. M. Thakur, M. A. Wattleworth. Western Hemisphere Department: F. van Beek. Office in Geneva: H. B. Junz, Special Trade Representative and Director. P. R. Narvekar, Special Advisor to the Managing Director; J. Prust. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: P. Bonzom, M. B. Chatah, L. Dicks-Mireaux, B. R. Fuleihan, M. Galán, A. Gronn, M. J. Mojarrad, M. Nakagawa, J.-C. Obame, Y. Patel, B. Szombati, A. M. Tanase, S. Von Stenglin. Assistants to Executive Directors: T. S. Allouba, J. R. N. Almeida, B. Bossone, J. H. Brits, Chen M., J. A. Costa, M. Da Costa, S. K. Fayyad, S. Gurumurthi, K. Ishikura, V. Kural, R. Meron, M. Mrakovcic, L. F. Ochoa, E. Quattrociocche, L. Rodríguez, P. L. Rubianes, Tin Win, R. Thorne, C. M. Towe.

1. WORLD ECONOMIC OUTLOOK

The Executive Directors continued from Executive Board Meeting 92/47 (4/6/92) their consideration of a staff paper on prospects and policy issues related to the world economic outlook (EBS/92/47, 3/13/92), together with a statistical appendix (SM/92/56, 3/16/92) and annexes providing supplementary background material (SM/92/58, 3/17/92; and Cor. 1, 4/1/92). They also had before them a staff paper on management of the debt situation (EBS/92/52, 3/17/92; and Sup. 1, 3/24/92), a staff paper on developments in official multilateral debt renegotiations in 1991 (SM/92/67, 3/24/92), and charts and tables on exchange rate developments (EBD/92/62, 4/3/92).

The Chairman stated that Directors had agreed informally to take up his statement on the financing requirements of the former U.S.S.R. on April 14, 1992 (EBM/92/53 and EBM/92/54). However, he would be pleased to hear the preliminary comments of Directors on that statement, as well as their reactions to the staff's statement on the financing requirements of countries in Central and Eastern Europe, at the current juncture.

Mr. Fernando stated that the financing requirement noted in the Chairman's statement was of the order of $100 billion over the following three years. The Chairman had commented that such an amount was in line with the available savings for investment, as outlined in the October 1991 World Economic Outlook. At the current juncture, he hoped that in responding to the questions of Directors on the present world economic outlook, the staff could also outline the macroeconomic effects of such a financing scenario on the rest of the world, but in particular on Europe, especially in the light of the potential for trade that such investment would unlock, as well as in the light of the current sluggishness of economic activity in Europe.

Mr. Tabata stated that he appreciated the staff's effort to estimate the financing requirement of the former U.S.S.R. up to 1994. The figure mentioned in the Chairman's statement was indeed a large one, and should not be regarded as a target. Both the Fund and the authorities of the republics of the former U.S.S.R. should make every effort to reduce that financing requirement. Moreover, it should be stressed that financing on such a level could not be offered without economic adjustment. The statement had emphasized that the republics would need to rely most heavily on bilateral financing, but he believed that in the first stage of the economic reform, the multilateral financial organizations should take a major role. In that connection, the coming into effect of the increases in quotas under the Ninth General Review was obviously imperative. At the same time, he supported the idea of activating the General Arrangements to Borrow (GAB).

Mr. Solheim made the following statement:

> I welcome the Chairman's statement on the external financing requirements of the republics of the former U.S.S.R.. The statement clearly illustrates the huge challenges ahead of us. I will make only some preliminary comments at this stage.

The quota increases under the Ninth General Review must be ratified promptly. The financing of the republics of the former U.S.S.R. was not part of the rationale for the quota increase, and the agreed 50 percent increase was also lower than the increase this chair had considered appropriate. The Tenth General Review of Quotas may soon be necessary, but this issue should be treated with caution. The Ninth General Review must be safely completed.

I agree that we should activate the GAB. We must, however, be assured that preconditions are met, that is, that financing is provided in the context of a Fund-supported program in the upper credit tranches; that there exists an exceptional situation with balance of payments problems of a size and character that threaten the stability of the international monetary system; and that acceptance and approval by creditors and the Board are ensured. We will have to return to the details on those subjects.

A GAB activation is not a substitute for the quota increase. In this context, I refer to the low liquidity projected for the Fund toward the end of 1993, despite ratification of the quota increases under the Ninth General Review. It may be necessary to look at an early date into how the Fund can meet a possible liquidity shortage before the Tenth General Review of quotas comes into effect, independent of an activation of the GAB this year.

Activation of the GAB should not be directly linked to a stabilization fund for the Russian Federation. We must keep in mind that the required adjustments are larger for the other republics. Focus on the Russian Federation is important, given its size and importance for economic stability in the territory of the former U.S.S.R.. However, uniformity of treatment of the republics is essential. The balance of payments projections for the other 14 republics are quite dramatic. Their terms of trade developments are more adverse. Nevertheless, as for the Russian Federation, we must emphasize the importance of Fund conditionality and strong programs. Fund disbursements should not be front-loaded, but should go hand in hand with the implementation of the agreed programs or policies.

An examination of the role of the SDR may be sensible at an appropriate time, in view of the expansion of the Fund's membership and increased financing requirements. However, this should await the coming into effect of the Ninth General Review.

Mr. Landau said that he subscribed to everything Mr. Solheim had said, and he strongly supported his statement.

Mr. Peretz commented that his authorities wished to consider the details of the figures the Chairman had provided. Unfortunately, those details would never be very clear, but the division of the financing need

between the Russian Federation and the other republics would need further consideration. That decision would depend, for example, on how interrepublican relations evolved, and whether or not the republics other than the Russian Federation began to service their share of the debts of the former Soviet Union. The scale of financing that would be necessary--unforeseen at the time of the previous review of Fund quotas--nevertheless clearly indicated the urgent need to proceed with implementing the Ninth Quota Review. In addition, a stabilization fund for the ruble would require a large amount of resources. For those reasons, his authorities would accept the need to investigate the possible activation of the GAB to help with the financing. The United Kingdom believed that a ruble stabilization fund could play an important role in enhancing the credibility of a Russian Federation reform program as well as other reform programs in the ruble zone. However, he would stress that a reform program, if it was to be a good one, should justify the Fund's support, and that a ruble stabilization fund without a Fund-supported program would be unlikely to succeed.

The Chairman remarked that the Fund's strength lay in defining the parameters of successful and flexible programs. Those attributes would be essential were the Fund to enter the uncharted waters of stabilization funds and payments unions.

The Economic Counsellor, responding to the questions of Directors on the world economic outlook, said that the papers for the world economic outlook had been considerably shorter than before, a fact to which he had been surprised no speaker had drawn attention. Directors had made many wide-ranging and insightful comments, to which he would do his best to respond.

With respect to the forecasts for the world economy, many Directors had emphasized the downside risks that they saw in the forecasts for the industrial countries, as well as for many of the developing countries, the Economic Counsellor remarked. In that vein, they saw the small downward revision he had referred to in his opening remarks--with industrial country growth in 1992 now projected at about 1 3/4 percent--as more realistic. Nevertheless, many Directors would still emphasize the risks on the downside, a judgment which he generally shared. For the United States and Canada, the recent data suggested a strengthening of recovery. In his personal view, and as he had said in December 1991, he could foresee growth in the United States at perhaps 3 percent--or a bit more--from the fourth quarter of 1992 to the fourth quarter of 1993. There might well be some upside potential, for growth in the 4 percent range, as well as a downside risk that the recovery would again stall; overall, these risks seemed fairly evenly balanced.

He had a profound concern that developments in Japan might presage an outcome that was worse than projected, the Economic Counsellor continued. All of the leading indicators were pointing steeply downhill, including notably the performance of the stock market. However, the actual performance of the real economy had been much stronger than the performance of financial markets and some confidence surveys, so that he would not press for a further downward revision of the Japanese growth forecast below the

staff's 2 1/4 percent, year-over-year. He hoped that the data to become available on the Japanese economy over the succeeding few weeks would determine more surely the direction the economy was taking.

Recent indicators had not on the whole been so steeply negative for Europe, the Economic Counsellor commented, although he was concerned about several European countries. The forecasts for western Germany envisioned growth on a fourth-quarter to fourth-quarter basis of about 3 percent in 1992, giving year-over-year growth of 1.3 percent. He wondered, however, if growth were to be that strong in western Germany in 1992, how much progress would be made in reducing inflationary pressures associated with high levels of capacity utilization. If inflation reduction was not reduced in Germany in 1992, moreover, what would be the implications of a continuation of tight monetary policy in Germany for growth prospects in the rest of Europe in 1992 and beyond?

Excluding Eastern Europe, the former Soviet Union, and the Middle East, the developing countries had been performing quite satisfactorily despite the sluggishness of growth in the industrial economies during 1991, the Economic Counsellor pointed out. The staff expected that general pattern to persist.

With respect to the debt situation, a number of Directors had raised questions about the implications for debtor countries of the Cooke ratio and the Basle capital standards for commercial banks, the Economic Counsellor recalled. The Research Department's capital markets group had been devoting attention to those issues in preparation for the forthcoming report on international capital markets which would be discussed at the Board at a later date.

As several Directors had recommended, the staff had attempted to indicate in the world economic outlook the policies that lay behind the successful performance of a number of developing countries, the Economic Counsellor commented. The world economic outlook had taken note of the importance of the sound policies that supported the superior performance in a number of developing country cases.

On a related point, Mr. Tabata had raised the question of current account performance in rapidly growing countries, the Economic Counsellor recalled. In a developing country that was developing successfully and experiencing rapid growth, there was often a tendency for a current account deficit--sometimes quite large--to manifest itself; this did not necessarily mean that the economy was unhealthy. Indeed, if an economy was growing rapidly and investing a high proportion of its GNP, the fact that it was borrowing resources from the rest of the world was a symbol of the healthy functioning of the world economy. Japan, in particular, had run large current account deficits during its rapid growth from the early 1950s through most of the early 1960s.

Mr. Goos remarked that he had been concerned about the speed and the extent of the deterioration in the current account position of developing

countries. The overall deficit of developing countries had ballooned from $8-10 billion in 1991 to about $80 billion in 1992--of which half could be accounted for by the transfers from the Middle East to industrial countries. Nevertheless, the remainder--$40 billion--struck him as a dramatic increase, especially as the projections for the following years showed no improvement.

The Economic Counsellor replied that he saw such an increase as dramatic, but not undesirable. The reflow of flight capital to Mexico and to several other Latin American countries was a healthy sign, not a cause for worry. He recalled that, several years previously, Singapore had been investing about 45 percent of its GNP, and had a current account deficit of 12-13 percent of GNP, but those figures did not imply that the Singaporean economy was unhealthy. A net transfer to the developing world of $40 billion should not be regarded as undesirable, given the attractive opportunities for investing that existed in those countries. Of course, if those resources were to finance high levels of consumption spending relative to income or a great deal of public expenditure--as had occurred at the end of the 1970s and the beginning of the 1980s, partly as a result of low real interest rates--instead of private capital investment, then there might be some reason for concern.

The Economic Counsellor stated that he supported the observation that it would be useful to examine the experience of a broader range of successful developing countries and previously developing countries in considering policies for Eastern Europe and for the states of the former Soviet Union. Particularly noteworthy in that regard had been the strong economic performance over the 1980s of China, which had followed a somewhat different strategy in moving the structure of its economy gradually away from central command and toward a more market-oriented system. It needed to be borne in mind, however, that political factors were an important determinant of the capacity to undertake such policies. In Eastern Europe and the Soviet Union, for example, the political structures that had been responsible for maintaining the system of central planning were totally discredited; in that context, it was doubtful whether the institutions of central planning could have been preserved once the political institutions associated with them had been so broadly discredited. The issue of the greater use of administered prices and controls in economies in transition needed further study.

The Research Department was actively investigating a number of questions relating to currency arrangements in the former Soviet Union, the desirability of preserving the ruble area, the introduction of new currencies or a payments union, payments arrangements, and mechanisms for preserving trade and coordinating economic policies among the republics, the Economic Counsellor stated. Those issues were also, of course, of interest to a number of other departments in the Fund. The Research Department had been looking into how new currencies had been introduced in the countries that had emerged from the Austro-Hungarian empire following that empire's disintegration, to see if there were any useful lessons that might be applied to the case of the states of the former U.S.S.R., with an eye in particular on payment unions and forms of payments arrangements. He had heard persuasive arguments that, because the conditions for the successful

introduction of independent currencies in the republics were not satisfied at present, and were unlikely to be satisfied soon, the ruble area should be preserved. He had heard equally persuasive arguments that the conditions required to preserve a successful currency zone--as exemplified by the Maastricht Treaty of the European Community (EC), for example--across a number of different republics were impossible to meet. These observations seemed to imply that the Fund might recommend barter as the optimal means of conducting economic relationships between the republics; this demonstrated that there probably could not be a first best monetary arrangement that would be politically and economically feasible. Rather, the Fund would need to understand the defects and the advantages of a variety of possible arrangements, rather than be wedded to one conceivable outcome by pointing exclusively to the disadvantages of the others.

Concerning the implications for the world economy and for Europe of a financing package for the Russian Federation along the lines of that suggested in the Chairman's statement, the staff had endeavored in the previous world economic outlook to examine the effect of an increase of $100 billion in net demand on the scarce supply of world savings, the Economic Counsellor continued. The staff had concluded that the effect would be to raise the level of world interest rates by about 1/2 of 1 percentage point, leading to a broad curtailment of investment around the world and, therefore, to some slowdown in world growth. That assumed that the increase in demand was not met with any offsetting measures, such as cutbacks in unproductive subsidies and/or military spending. If the increase in demand for resources were met by those means, then the outcome would be considerably more favorable. Thus, in examining any potential financing package for Russia of about $45 billion a year, the question of where the financing was to come from and whether a net expansion in the nominal supply of credit was to occur, but with no expansion in the real supply of credit, needed to be raised.

In the shorter term, an expansion of credit to the Russian Federation might benefit those countries and areas of the world--namely, the western European countries--that were most likely to be net suppliers of real goods and services to the Russian Federation and the other states of the former U.S.S.R., taking into account the fact that the capacity of those countries to purchase imports from the rest of the world would expand. The patterns of world trade and geographical proximity unavoidably played a role in that regard. In circumstances in which economic activity in western Europe was generally below potential, therefore, an increase in demand arising from the republics of the former Soviet Union and Eastern Europe could conceivably be useful. However, if output was at or above potential, then an increase in demand arising from the republics of the former Soviet Union and Eastern Europe would add to inflationary pressures. At present, one European economy that was clearly at or above potential was that of Germany. The most favorable impact would be achieved, therefore, if, together with a financing package for the republics of the former U.S.S.R., further moves toward fiscal consolidation were made in Germany, thus helping to relieve excess demand pressures in western Germany and allowing a greater part of the impact of any increase in spending to fall more broadly across European countries. In a medium-term context, however, the fact remained that any

financing package for the republics of the former U.S.S.R. should be met by an appropriate tightening of other forms of government expenditure or government credit creation.

Mr. Landau commented that the issue of who would benefit from a financing package for the republics of the former U.S.S.R. needed to be taken in a broader context. The financing of the former U.S.S.R. had global systemic implications, and it should be dealt with in those terms--not in the narrower terms of historical trade patterns. In dealing with the debt crisis, for example, the international community's chief consideration had been the global consequences of the crisis; the same metric should be applied to the economic transition of the republics of the former U.S.S.R. Also, he was not certain that a direct link could be made between financing of the republics of the former U.S.S.R. and trade finance for those republics.

Mr. Peretz said that he agreed with Mr. Landau. The Russian Federation was on the Pacific Rim, as well as in Europe. Many of the republics regarded themselves as Asian countries. The question of financing the republics of the former U.S.S.R. was therefore a global issue, not a European one.

Mr. Abbott said that financing the republics of the former U.S.S.R. had immediate effects as well as more general consequences. However, in discussing the numbers, it needed to be borne in mind that financial restructurings that were over and above the amount of real transfer were also included.

Mr. Peretz said that one of the major beneficiaries so far of much of the aid that was being given to the former U.S.S.R. were farmers in North America, whose grain exports had gone to the former U.S.S.R. under credit programs.

Mr. Landau said that he would not oppose a serious study of the global consequences of regional events, but he would warn against making simplistic statements. He would contest the idea that geography and propinquity were important determinants of trade flows, for example.

The Economic Counsellor observed that Mr. Végh, in his comments on the economic recovery in Mexico and the country's successful reform efforts, had pointed specifically to the favorable impact of Mexican growth on United States exports--about $12-13 billion of the increase in United States exports between 1990 and 1991 had been accounted for by the growth of the export market in Mexico. The compression of imports in Latin America associated with the debt crisis had been one of the key reasons for the poor performance of United States exports during the first half of the 1980s. In his unfinished paper entitled Antipathy, Sympathy and the Volume of Trade, the Economic Counsellor stated, he had shown that political sympathies and antipathies between countries influenced trade volume, and in that connection, the paper had speculated on how the change in political sympathies with the collapse of the Cold War would affect world trade patterns.

The influence of geography on the pattern of trade was a well established principle in the academic literature.

Mr. Landau observed that the solution of the debt crisis benefitted some specific areas more than others, but that the focus of the international community's attention was the global systemic implications of the debt crisis. The same focus should apply to what would be the world's next systemic crisis--how to handle the financing needs of Eastern Europe and the republics of the former U.S.S.R..

If a certain pattern of trade flows was established--as in the case of Latin America and the United States--a macroeconomic or financial shock in one part of the pattern would of course influence the other part, Mr. Landau agreed. However, he would question the idea that the pattern of future trade flows would depend on geographical proximity. Competitiveness and the trade regime would also determine future trade flows.

The Economic Counsellor said that the decision on the financing of a prospective program for the Russian Federation would need to be made with a view to the overall interests of the world economy.

The policy issues for the industrial countries had engendered much comment, the Economic Counsellor continued, both with respect to the specification of economic policies in the various countries, and to the general issue of the medium-term strategy and the ramifications of that strategy for the tactical conduct of economic policy. The main message of the current World Economic Outlook--especially in terms of what it suggested for economic policy--was not very different from that in previous reviews of the world economic outlook. To be interpreted correctly, the World Economic Outlook needed to be considered as a panoramic picture; focusing on particular points while ignoring the whole could be misleading.

The medium-term strategy had important implications for the appropriate conduct of economic policy on a day-to-day, month-to-month, and year-to-year basis, the Economic Counsellor commented. Nevertheless, the medium-term strategy was not the unique and sole guide to the tactical implementation of economic policy, especially in the areas of monetary and fiscal policies.

With respect to fiscal policy, it was generally agreed that, on the one hand, fiscal consolidation must be the key medium-term fiscal policy objective for countries with a large--and growing--ratio of debt to GNP, and with a large deficit relative to GNP, the Economic Counsellor stated. In such cases, the need to reduce the budget deficit persistently over time was clear. For countries in long-term fiscal balance, on the other hand, without a need for fiscal consolidation over the medium term, the clear prescription for the short-term tactics of fiscal policy would appear to be to allow the automatic stabilizers to operate. There was a natural tendency for revenues to decline and for certain categories of expenditure to rise as the economy slowed, and a corresponding tendency in the other direction as economic activity accelerated. The budget ought to be balanced over the cycle in a country in long-run equilibrium, and fiscal policy ought to be

conducted in such a way that it tended to cushion the economy from shocks to the level of activity.

However, he wondered what the appropriate policy choice might be for a country with a need for fiscal consolidation in the medium term, but also subject to cyclical influences, the Economic Counsellor observed. It might be that the two policies would need to be put together in some way. When the medium-term problem was very big, then fiscal consolidation would be essential even in a recession. When the medium-term problem was not so large, then the automatic stabilizers should be allowed to operate, but perhaps not completely, given the substantial medium-term problem that would have to be dealt with. That general prescription was behind the analysis in the world economic outlook. Operation of the automatic stabilizers was not, after all, the prime objective of fiscal policy. In some circumstances, some discretionary fiscal action might be called for in a country that was a long way from equilibrium. For example, in the United States in 1933, the unemployment rate was 25 percent, and GNP had declined by nearly a third from its level in 1929; in such a situation, some discretionary fiscal stimulus might be contemplated without worrying about inflationary forces.

What discretionary actions might be appropriate would thus depend on the circumstance of the economy's fiscal situation overall and of its cyclical situation, the Economic Counsellor observed. In the United States at present, the prescription should be to allow the automatic stabilizers to operate, but not fully, and indeed, that was what had happened; the Budget Act of 1990 had tightened Federal fiscal policy in the presence of a weakening economy. State and local governments had adopted fiscal tightening of a significant order of magnitude relative to their budget positions in 1991, and to a more limited extent, were continuing to do so in 1992. The impulse from fiscal policy in the United States in 1991--a year of recession--had been negative to more than 1/2 of 1 percent of GNP, which had been the correct policy to follow. However, the question arose as to whether it would remain the correct policy for the second year in succession, given that the economic recovery appeared to have stalled. In his view, to repeat that policy before it became clear that the recovery was beginning surely to take hold would not be a sensible policy prescription. In contradistinction, if the recovery had proceeded on track--without a stalling in the late summer and fall of 1991--the correct policy prescription to have made at present would be for a further fiscal tightening, to take effect during 1992, 1993, and 1994. The stalling of the recovery and the lack of certainty at present that the expansion would continue at a reasonable pace were good reasons for not calling--at present--for strong actions to tighten fiscal policy in the United States.

The prescription for the United States might change if it were likely that economic growth in Europe and Japan would be strong, the Economic Counsellor pointed out, and in that connection, the prescriptions in the world economic outlook took into account the state of the world economy. With the prospect of anemic growth in 1992, however, and with few sources of stimulus to maintain the pace of recovery, to argue that a sharp contraction

of the U.S. fiscal deficit should take place, notwithstanding the stalling of the economic recovery in the United States, did not seem to be sensible.

Mr. Végh said that he wondered whether the stalling of the recovery could be explained to a large extent by insufficient fiscal consolidation efforts, which had eroded consumer and investor confidence and contributed to a steeper yield curve.

Mr. Landau commented that he agreed that the fiscal policies of large countries should be examined in the context of the situation of the global economy. He wondered what policy prescriptions the staff would make regarding Japanese fiscal policy, following the same line of argument that the Economic Counsellor had used concerning United States fiscal policy.

In his statement, he had said that the world economic outlook analysis should spell out more clearly the conditions under which the automatic stabilizers should be allowed to operate, Mr. Landau recalled. The Economic Counsellor's observation that in the case of the United States--notwithstanding its large budget deficit, and the ramifications of that deficit for the public debt and the economy's financial balance in general--the stabilizers might still be allowed to operate, merely reinforced the need for more analysis about the automatic stabilizers, in his view. In contrast, he would conclude that the U.S. fiscal situation--characterized by an unsustainable deficit, even in the medium term--was not such as to allow the automatic stabilizers to operate at present. Perhaps the staff could comment on that point.

Given the arguments that had been raised to the effect that the U.S. fiscal deficit had contributed only fractionally to the U.S. economic downturn, he wondered whether the small fiscal impulse that might be generated by allowing the automatic stabilizers to operate would have any real impact on the economy, Mr. Landau concluded. In that connection, the questions raised by Mr. Végh about the impact of the decline in consumer and investor confidence needed to be addressed as well.

Mr. Peretz stated that he wondered what would be the effects of various actions in the United States and other major economies to bolster consumer and investor confidence on economic recovery. In his view, the fall in confidence was one of the major factors behind the stalling of the U.S. recovery in the second half of 1992.

Mr. Goos noted that part of the answer could be found in the staff paper itself on page 31: "A decline of domestic demand, following cuts in public sector expenditures might lead to an initial dip in economic activity. However, this would normally be reversed relatively quickly, as the distortions caused by high deficits are reduced and domestic growth improves." He fully subscribed to that sentence, but he had some difficulty reconciling it with the message in the staff paper on the United States. There appeared to be a consensus in the news media that the underlying fiscal deficit--the so-called structural deficit--was on the rise. Thus,

the automatic stabilizers had been allowed to operate in the face of an increase in the structural deficit.

To follow the staff's reasoning, if there was a strong need for fiscal consolidation in the medium term, then a reduction of the deficit, even in the short term, would be required, even during a recession, Mr. Goos pointed out. Under that rule, he would have expected the staff to have advised the United States--instead--to reduce its deficit further, because of the clear need for fiscal consolidation. Moreover, there was little evidence that the deficit would be reduced by discretionary measures in the foreseeable future; indeed, on the contrary, several studies had been undertaken--including one by a famous economist--in the United States that downplayed the importance of the deficit, and argued that some spending was needed to pull the economy out of recession and improve the prospects for prosperity.

Mr. Filosa said that he agreed with Mr. Goos about the inadvisability of allowing the automatic stabilizers to operate in the United States in the current situation.

While the world economic outlook had noted the contribution of fiscal discipline to the slow pace of economic growth in Europe, there had been no indication of the possible effects of the depreciation of the U.S. dollar on European growth, Mr. Filosa commented. His Italian authorities had designed a model of the effect on the Italian economy of the depreciation of the U.S. dollar, which showed that the monetary effects of the depreciation had been such as to cause Italian growth to have been 1 percentage point of GDP less than it would have been otherwise.

He recalled that the world economic outlook had drawn attention to the fact that the large share of U.S. dollar-denominated assets in the portfolios of United Kingdom institutions complicated the exchange rate policy management of the United Kingdom authorities, Mr. Filosa observed. That fact should not be viewed in isolation, however. The implications of the use of monetary policy on growth in Europe needed to be kept in mind.

Mr. Posthumus commented that the staff's arguments appeared to assume that the current economic downturn was cyclical in nature, and in that sense, that the automatic stabilizers should be allowed to operate. He wondered whether such an assumption was correct at the current juncture, especially taking into account the points Mr. Peretz and Mr. Végh had made about consumer and investor confidence. The same questions could be raised about the characteristics of the incipient downturn in Germany--was it due to cyclical considerations, or to the very large external shock to the western German economy caused by unification with the eastern part? Making the distinction was important, because applying the same medicine to different illnesses might not be very useful.

Mr. Abbott said that he believed that the Economic Counsellor's perspective was close to the mark. It appeared that in 1990-91, the fiscal policy of the United States had been consistent with the medium-term strategy, as there had been a net negative fiscal impulse over that period

equivalent to about 1.2 percent of GDP. He wondered whether the fiscal policy had triggered the economic downturn; in that connection, he recalled that Dr. Beryl Sprinkel had always maintained that economic cycles ended not because of old age, but because of bad policies. Perhaps the staff could comment on which policy had gone awry that had led to the slowdown--a slowdown that was far worse than what the world economic outlook had been expecting.

He wondered whether the Board was not overworking the discussion of rules versus discretion in the implementation of economic policy, Mr. Abbott observed. If too much attention were paid to trying to find precise rules for the operation of the medium-term strategy, he feared that the strategy would be discredited in the end.

The Economic Counsellor said that, as the World Economic Outlook paper had made clear, the cyclical situation in the United States was different from that in Germany and Japan. In the United States, the economy had been in a cyclical downturn characterized by considerable excess capacity, an unemployment rate well above the natural rate of unemployment, and a declining rate of inflation. The economy had been below its normal path of potential output, and there would be a cyclical recovery. In Germany and Japan, in contrast, output had risen above potential, and in western Germany, inflationary pressures were strong. The slowdown in growth in Germany had not been regarded as undesirable, therefore, although it might be undesirable if growth were to fall substantially further. The world economic outlook did not envision a recession in western Germany. The slowdown in Japan was also regarded largely as desirable, and the evidence so far did not suggest that the slowdown would proceed too far, although there were some worries on that point. The decision of the Japanese authorities to front-load some public sector expenditures to the first part of the fiscal year was the right decision at the current juncture, which left open the option--which might be necessary and appropriate if the slowdown proved to be greater than anticipated--of an additional fiscal boost in a supplementary budget in the second half of the year.

There had been a genuine recession in the United States, an incipient recovery had stalled at the end of 1991, and fiscal policy had exerted a negative impact on economic activity in 1991, the Economic Counsellor continued. To argue in favor of implementing such a policy again--before the recovery was at least partially established--seemed to be an inappropriate policy prescription.

Overall, it appeared that the world economy would be fairly weak over the coming year in terms of prospective sources of demand growth, and inflation did not appear to be an immediate problem in most countries, the Economic Counsellor went on. Therefore, it might be useful if those countries which could afford to implement policies that provided some stimulus, without the danger of doing medium- or long-term damage, would do so. The actions of the Japanese authorities needed to be viewed in that context, particularly if the Japanese current account surplus was rising from 2 to 3 percent of GNP. The strong record of the Japanese Government in

managing its fiscal position made Japan one of the few countries where fiscal policy could be used to that effect. There was no chance of using fiscal policy in that way in the United States.

The United Kingdom authorities had engaged in some discretionary fiscal stimulus over the previous nine months, the Economic Counsellor recalled. Although there might be room for worry about the latest budget, the record of the U.K. authorities in achieving fiscal consolidation in the 1980s provided at least a reasonable hope that they would be able to turn around their budget position when the cyclical situation turned. Moreover, the recession had been much deeper in the United Kingdom than in the United States. Also, because sterling was tied to the exchange rate mechanism (ERM) of the European Monetary System (EMS), and because it was likely that fairly tight monetary conditions would prevail in Europe for some time, there was no inflationary danger in the United Kingdom from the standpoint of monetary policy. Therefore, in the circumstances of the United Kingdom and of the world economy as a whole, some discretionary use of fiscal policy in the United Kingdom had not been a bad thing.

It was regrettable that the modest pace of recovery that had been anticipated in the spring and summer of 1991 had not materialized, the Economic Counsellor remarked. If such a recovery had taken root, it would have been opportune at the current juncture for the United States authorities to have proceeded with more vigorous measures to reduce the fiscal deficit, and thereby--as Mr. Végh had suggested--to bolster consumer and investor confidence. However, it would be impossible to introduce a fiscal package of that kind in the current political environment in the United States. It was to be hoped that the attention of policymakers could be turned in that direction once again at the beginning of 1993, as progressive fiscal consolidation in the United States remained a key policy concern of the U.S. Government.

Economic policy had an important influence on the cyclical behavior of the economy, but it was far from the only influence, the Economic Counsellor pointed out. In the current cycle, for example, credit policies pursued in the private sector had had a large influence on the economic downturn. Nevertheless, in the area of fiscal policy, the failure to achieve a more consistent fiscal consolidation, even of modest proportions, in 1984-1986 and 1988-1990 had contributed to the current downturn. If a small fiscal consolidation of even only 1/2 of 1 percent to 1/3 of 1 percent of GNP a year had been achieved over those years before the economy entered the recession in 1990, the ratio of outstanding public debt to GNP would have been falling rapidly. A sustainable deficit was a deficit on the unified budget of about 2 percent of GNP, or, including social security, about 3 percent of GNP. The important policy lesson, in sum, was that if there had been an additional fiscal consolidation in the United States during the long boom years of the 1980s equivalent to about 2 percent of GNP, then the Budget Act of 1990--which had induced a fiscal impulse in the wrong direction and at precisely the wrong moment--would not have been required.

Monetary policy in the United States had been too expansionary in 1985 and 1986, with very rapid growth rates of the monetary aggregates and with interest rates kept too low by the Federal Reserve, the Economic Counsellor continued. Those factors had contributed to the stock market boom and the stock market crash of 1987, and had helped to build up inflationary pressures. The Federal Reserve had begun to tighten in 1988, pushing up the Federal funds rate from 6 1/2 percent in March 1988 to nearly 10 percent in May 1989. Perhaps this tightening had been too much, or had been held for too long, with the Federal funds rate above 8 percent through the summer of 1990. However, that monetary tightening would not have been needed if the Federal Reserve had been more cautious about monetary expansion earlier on. The recessions in Canada, the United Kingdom, and Switzerland had been characterized by similar policy mistakes, necessitating subsequent monetary tightening.

Mr. Goos commented that he was concerned about the recommendation of discretionary policies in the United Kingdom and Japan. While he could concur with the point that the automatic stabilizers should be allowed to operate, he would not wish to downplay the fight against inflation and the importance of maintaining the medium-term strategy. He also had doubts about the idea that the political situation in the United States precluded faster fiscal consolidation there. In that connection, the world economic outlook exercise should be neutral, objective, and based on economic grounds--not written with political expediency in mind.

Mr. Abbott said that he wondered what the policy implications were of the increased indebtedness of the household and corporate sectors in the United States, the United Kingdom, and Japan. The fact that households wished to reduce their indebtedness was reflected in the main paper as an increased propensity to save. Likewise, the desire of overindebted corporations to reduce investment and scale back spending so as to reduce their debt loads appeared in the main paper as a decline in planned investment. In a classical economy, assuming an equilibrium situation, a reduction in interest rates would be brought about as a result of those factors. He wondered whether a monetary policy focussed singlemindedly on short-term interest rates might frustrate an economic adjustment process that was taking place in the background. He was not certain that there were policy implications in those observations, or whether the phenomenon should be left to work itself out on its own.

Mr. Peretz said that a recognition of the impact of various actions on business and consumer confidence had not been sufficiently emphasized. Mr. Abbott's observation seemed to reinforce that. Financial behavior had changed in several major economies, perhaps because of financial liberalization and deregulation. Consumers and companies had run up a high level of indebtedness during a period when confidence had run high, and at present, when confidence was at a low level, they were repaying debts. Confidence was a particularly important factor underlying prolonged recessions such as the current one.

Because the United Kingdom had entered the recession from a position of a budget surplus, the authorities had been able to let the automatic stabilizers operate and implement some very modest discretionary actions without undermining confidence, Mr. Peretz explained. The markets' reaction had been marginal--long-term interest rates had risen sharply, but not disastrously. The United Kingdom's membership of the exchange rate mechanism was another factor that helped to instill confidence, and helped the Government to avoid actions that would undermine confidence.

How the same sort of argument about policy prescriptions could be transformed into one that applied to the United States was unclear to him, Mr. Peretz commented. He recalled that the Economic Counsellor had seemed to imply that the United States could allow the automatic stabilizers to work fully in 1992. That would imply some discretionary expansionary action by the Federal Government, in his view, as the reason the stabilizers had not had their full intended effect was partly because the budget balance constraints faced at the state level had led the states to raise taxes during a recession. Some discretionary expansionary action would have an adverse effect on confidence, which would more than outweigh the positive impact it might have on the U.S. economy.

Mr. Tabata said that the Japanese authorities were not overly concerned about the current situation. Japanese real growth had averaged 5 percent over the preceding five years, so some adjustment was necessary. Also, the unemployment rate was at an extremely low level of 2.1 percent, and the rate of capacity utilization was still very high. Although industrial production in Japan in January 1992 had decreased by 4 percent, it needed to be borne in mind that in January 1991, Japanese industrial production had increased by 8 percent; the fact that it had declined by 4 percent in January 1992 left it still at a very high level. Over the preceding three years, the real rate of growth of business fixed investment had been in the double digits, so some capital stock adjustments were necessary. While the Economic Counsellor had noted that, at the current juncture, business fixed investment was extremely weak, especially in the large-scale manufacturing sector, business fixed investment in that sector amounted to only 8 percent of GDP. Business fixed investment in the nonmanufacturing industries--including large, medium, and small companies--amounted to about 25 percent of GDP, and had already picked up.

Regarding the impact of the recent declines in Japanese equity prices on private consumption and consumer confidence, it needed to be recognized that in Japan, the household sector accounted for only a very small proportion--about 6 percent--of total stockholding, Mr. Tabata pointed out. Therefore, the decline in stock prices was unlikely to have much of an effect on consumer confidence. In fact, the sales of the large stores in January 1992 had increased by 4 percent over January 1991, so consumer expenditure was still strong, and not declining. Regarding inventory investment, shipments of the manufacturing sector had increased in January and February 1992, and the inventory ratio had therefore declined. Inventory adjustment was proceeding, and the authorities anticipated that the adjustments would have been finished by the second half of 1992.

The Japanese authorities were not overly worried about the current situation, and therefore they did not believe that any additional fiscal measures were needed, beyond those that had already been agreed on--such as the lowering of the discount rate by 0.75 percentage points, the front-loading of public works expenditures, increases in lending for housing construction by the public financial institutions, and acceleration of the timetable for business investments by the electricity generating companies, Mr. Tabata concluded. Those measures would improve the business situation.

Mr. Clark commented that there was nothing wrong with households or corporations correcting their balance sheets. The real issue, in his view, was what had led to the growth in liabilities and the buildup of large debt positions. In the cases of Canada and the United States, the current slowdown, the low level of consumer and business confidence, and the lack of success in emerging from the slowdown as quickly as anticipated, could be explained by the fact that a permanent shock to private sector wealth had taken place--not just a temporary demand or supply disturbance. Therefore, the current slowdown was somewhat different from past ones. In the United States, it needed to be borne in mind that the counterpart of the low savings rate was the high rate of ownership of private housing--sometimes the ownership of a number of houses. The generalized decline in property values had therefore had widespread effects on net wealth and on confidence. Of course, the future U.S. elections might also have an effect on confidence as well.

He had noted that the world economic outlook analysis had shown a negative fiscal impulse in the United States of 0.3 percent of GDP in 1991, and a positive fiscal impulse of 0.8 percent of GDP in 1992, Mr. Clark went on. He would have preferred to have seen a continuation of fiscal consolidation in the United States over a number of years instead. Moreover, looking beyond the planning period for the Budget Enforcement Act, a deficit of 4 percent of GDP--and possibly rising--was projected. Fiscal credibility therefore could not be said to exist. In addition, the structure of revenues and expenditures was not consistent with the medium-term budget policy. He agreed with Mr. Goos that, from a purely policy point of view and not considering the political realities, a major fiscal consolidation effort should have been required by the U.S. Administration to offset the positive fiscal impulse expected in 1992. The automatic stabilizers should not have been allowed to operate in that sense; rather, policy measures should have been taken to offset the impact of the automatic stabilizers if the credibility of the medium-term policy goal was to be maintained.

Mr. Filosa said that he shared the comments made by Messrs. Clark and Goos. He believed that too much attention was being paid to the domestic impact of interest rate and monetary policy; although it was clear that where the level of indebtedness was high, the appropriate response would be to lower interest rates in order to allow a better balancing of the budgets of households and enterprises. More consideration should be given in the world economic outlook to the international effects of domestic interest rate movements.

Mr. Abbott noted that the staff's projections of the United States fiscal deficit differed from those of the United States authorities. The official U.S. Government projection of the total deficit--including Social Security payments--was 3.2 percent of GNP in 1994, then falling to 2.7 percent, 2.4 percent, and 2.3 percent--that is, below the equilibrium rate beyond which the public sector deficit would increase.

Mr. Végh said that he recalled that the Economic Counsellor had observed that tactical policy movements in the United States and other countries that would not be advisable under normal business cycle conditions might be contemplated at the current juncture, because the present business cycle had exceptional characteristics. However, he did not believe that the current business cycle was different from previous ones. The variations in asset prices, in wealth, and in the balance sheets of enterprises represented a textbook example of the evolution of the business cycle.

The Economic Counsellor, responding to a question from Mr. Mirakhor, said that while the stalled recovery in the United States might be explained partly by poor economic performance in Europe, on the whole the United States was responsible for the effects of its own business cycle.

The world economic outlook recognized the problem of the United States fiscal position, the Economic Counsellor continued, as well as the need to consolidate the fiscal position fairly aggressively. That notwithstanding, the question remained as to what tactical advice the world economic outlook should give--bearing in mind its publication date of May 1992--for the immediate implementation of fiscal policy in circumstances in which the restoration of economic recovery was not clearly on track. Taking that into consideration, a recommendation to tighten at the current juncture would not be particularly persuasive. Once the recovery was on track, however, measures to strengthen the fiscal consolidation would need to return to the top of the agenda again.

He agreed with Mr. Peretz that state and local governments in the United States were still tightening in 1992, and he would not argue that the Federal Government should offset it, the Economic Counsellor observed. Other than the cutting of defense spending by perhaps more than anticipated, no discretionary action had been taken on the U.S. budget. The positive fiscal impulse of 0.8 percent of GDP to which Mr. Clark had referred was probably the result of a revision of previous estimates of the likely revenue path associated with a given path of economic performance--namely, technical readjustment of the budget, which did not have a large macroeconomic or stimulative impact. If U.S. fiscal policy was moderately contractionary in 1992, he would not recommend offsetting it through discretionary action.

On the question of discretionary action and fine-tuning, he wished to quote a passage from the book Profiles In Courage, by John F. Kennedy, the Economic Counsellor stated. The quotation was:

> There are few things wholly evil or wholly good. Almost everything, especially of government policy, is an inseparable compound of the two; so that our best judgment as to the preponderance between them is continually demanded.

In assessing the conduct of fiscal and monetary policy, forming the best judgment as to the preponderance between good and evil was what was always demanded of policymakers, in his view. There was no automatic rule that provided guidance on how fiscal or monetary policy should be conducted in all circumstances. There was no unique monetary aggregate the path of which could be targeted precisely, and to which the conduct of monetary policy could be surrendered. Judgment, in the light of the performance of a large number of economic indicators, was rather what was required. Even the Deutsche Bundesbank--with its enviable monetary policy record--had a 2 percent range for the target growth rate of its key aggregate, and had missed that range in 7 of the previous 15 years.

The world economic outlook called attention to the fact that much had already been done to counteract the weakness of economic activity, the Economic Counsellor pointed out. In the United States, monetary conditions had been appropriately eased in response to the stalling of the recovery. Monetary conditions would need to be considered continuously in the light of the economy's subsequent performance. If the current apparent resumption of growth failed and the economy again exhibited negative growth, then perhaps a further easing of monetary conditions would be in order. If the recovery picked up--to the extent of 4-5 percent real growth through the remainder of 1992--and inflationary pressures increased, then the Federal Reserve would need to move promptly to tighten money market conditions.

Mr. Posthumus commented that no one was arguing in favor of a fixed rule. In his view, the prescription for medium-term policy that the world economic outlook was providing was being changed--in a very subtle way--from what it had been in the past, by its stress on the effect of the automatic stabilizers, and in addition, on discretionary measures. Perhaps the soup was the same, but it was being given a rather different flavor.

Mr. Evans said that the message of the world economic outlook was unclear. The Economic Counsellor was providing explanations of the analysis that had not been included in the paper, because they were the types of explanations that could not be made public. The Fund had not had such problems before, because, on the whole, it had not dealt with things that really mattered or that the public might want to know about. In contrast, however, the World Economic Outlook would become a public document, and what it said did matter. Directors wished to be assured that the World Economic Outlook that was published resembled those that had been published before. If the world economic outlook was like an elephant--an analogy that the Economic Counsellor had made--then it should look as though it had come from

the same stable as the last one. What that meant was a clear message that there was no need to change the medium-term strategy. That message had not come through clearly. In particular, the scenario on Germany had shifted the focus from where it ought to be--namely, on the key issues of fiscal policy and international competitiveness.

Mr. Goos said that the staff should review and rewrite the World Economic Outlook paper, as the current version represented a break with the established medium-term strategy. If the paper was to be published as a report of the Fund, then the appropriate corrections should be made to it first.

The Economic Counsellor said that he agreed with Mr. de Groote's interpretation of the message of the world economic outlook. He wished to quote Mr. de Groote's statement:

> The staff clearly advocates adherence to the first--rather passive--strategy: the policy recipe that is proposed is one of restraint in order not to fall into the trap of overstimulation, which has characterized some of the earlier cyclical episodes. Monetary policy should stand ready to exert some tightening once there are signs of an increase in potential inflationary pressures, thus reacting in a symmetrical way to the recent easing as a result of receding cost and price pressures. Fiscal policy should be geared to allowing the automatic stabilizers to operate, albeit not to the full extent, in view of current levels of budget deficits, thus reacting in an asymmetrical way in order to stay on course for the attainment of medium-term fiscal objectives.

That message was different from the one contained in the letter of the 100 prominent United States economists calling for fiscal stimulation in the United States. It was also different from the calls of some monetary economists in the United States and of some in the U.S. Administration for a further easing of monetary conditions as additional insurance for an economic recovery.

Mr. Abbott commented that his chair had some concerns about the rather tortured discussion in the world economic outlook of the medium-term strategy and the automatic stabilizers. That discussion seemed to be a formalistic approach to the medium-term strategy. The facts showed that the world economy was not reacting very well at the moment, and policymakers needed to use their judgment in deciding how to deal with the situation. To adopt a policy that seemed to ignore recent developments, while continuing to focus on the far horizon, seemed destined to discredit the Fund's influence, in his view.

Mr. Clark said that the message he had read in the world economic outlook was that macroeconomic policy must be constrained by medium-term objectives, because in that way, the pressure to sacrifice the commitment to noninflationary growth in favor of short-term stimulus could be resisted. Medium-term fiscal planning would be absolutely essential if the incorrect

policy actions of the past were not to be repeated. The policy prescriptions in the world economic outlook for the United States--especially with respect to fiscal action--were not consistent with the more general message on the medium-term strategy that it had presented. To argue that to make a particular prescription would be pointless, because it would not be heeded due to political reasons, was to ignore the fact that the policy prescriptions of others--such as the group of 100 leading economists that the Economic Counsellor had referred to--might be heeded instead. It was necessary to make a strong statement of the Fund's convictions on that score, to stand up to the possibly equally strong dissenting convictions of others.

Mr. Kafka said that he had the impression that the origin of much of the present discussion was not the message of the world economic outlook, but rather, the statements the world economic outlook seemed to be making about growth expectations--which were vastly overstated. The concern of many Directors seemed to be that, since there was no evident reason why increased growth should come about, there must therefore be a message hidden in the world economic outlook to the effect that measures should be taken to stimulate growth.

The Economic Counsellor replied that there was no reference in the text to a recommendation of the adoption of large scale stimulative measures, although there was an endorsement of the easing of monetary conditions that had occurred in the United States, Canada, Japan, and the United Kingdom. The recommendation on fiscal policy for many countries was the cautious use of the automatic stabilizers, while taking into account the need for medium-term fiscal adjustment. The sluggishness of growth of the world economy in 1991-92, particularly in the industrial countries, could be traced to a number of developments, including the harmful consequences of past policy errors which now needed to be corrected.

Mr. Torres said that he believed that the message of the world economic outlook had changed--although perhaps inadvertently from that of previous years. Also, he believed that Mr. de Groote's interpretation of the world economic outlook was not the only one. Therefore, the message of the world economic outlook was not clear, but rather, ambiguous. With respect to the issue of rules to guide short-term decisions on monetary policy, the world economic outlook seemed to open the door for introducing monetary policy fine-tuning. It needed to be borne in mind that monetary management was not an exact science, but rather, a kind of central banker's art. By opening that door, the world economic outlook might be used as a justification to use short-term monetary management to achieve long-term objectives, which might end not only in a failure to achieve the desired short-term objectives, but the long-term objective as well--the reduction of inflation.

The Economic Counsellor said that the wording on the treatment of the United States fiscal deficit might be strengthened in the published text of the world economic outlook.

Two questions needed to be answered regarding the world economic outlook's message, the Economic Counsellor observed. Those were, first, whether the message was the same as that in previous world economic outlook exercises; and second, whether the message was the right one. The World Economic Outlook stated clearly that the easing of money market conditions in the United States and elsewhere, in the light of the weakness of activity, was an appropriate policy action. By taking into account factors other than the inflation target, such as other indicators of economic performance that were actively taken into account in the conduct of monetary policy by the Federal Reserve and by other central banks, the staff was endorsing that way of conducting monetary policy, which he believed was the right message. If the message of the world economic outlook had changed in that respect, it was a change for the better, in his view.

The Articles of Agreement stated that among the fundamental concerns of the Fund was the behavior of output, the Economic Counsellor went on. Inflation was not mentioned as a concern of the Fund at all--other than in terms of the need to avoid deflation. Admittedly, the Articles of Agreement needed to be judged against the background of the Great Depression, which had been characterized by a catastrophic collapse of output, and when deflation, not inflation, had been the chief concern. The experience of the 1960s, 1970s, and 1980s had shown the danger of inflation, and that tolerating high rates of inflation was generally injurious to the basic purposes of the Fund in the context of sustainable output growth. Even if output was what really mattered, monetary policy that was directed toward price stability would contribute to achieving the best performance of output in the medium and longer term. Inflation per se was not the chief evil, however, but rather, what inflation could do to economic performance.

The targeting of price stability was neither immediately nor always the sole determinant of the tactics of monetary policy, the Economic Counsellor stated. To argue that such a targeting ought to be the sole determinant of the tactics of monetary policy would be exceedingly bizarre. No central bank had ever sought to target immediate, continuous price stability as the operational guide for the conduct of policy. Rather, there was the need to pay attention as well to the behavior of output and employment--as the United States Federal Reserve was legislatively required to do. In endorsing the adjustments that had been made recently in monetary conditions by the monetary authorities, the world economic outlook took the position that the authorities had been making a correct judgment in the light of the prevailing economic circumstances.

The international implications of some of the monetary policy adjustments needed to be considered, the Economic Counsellor continued, as Mr. Filosa had suggested. He doubted that it would be intellectually honest to say nothing about the major adjustments that had been made in economic policy over the previous six months, while simply repeating that monetary policy should pursue the long-term goal of price stability. Surely, the Fund, as part of its surveillance function, needed to make judgments about whether the adjustments were good or bad.

Mr. Al-Jasser said that he did not believe that the World Economic Outlook was ambiguous. He agreed with Mr. de Groote's interpretation of it. It said clearly that a further easing of monetary conditions would not seem to be warranted, for example. It also stated that it was essential that the response to the short-term policy concerns be consistent with the medium-term growth strategy followed since the early 1980s, especially by reducing public sector deficits and implementing structural reforms. In the context of the discussion of the countries with large fiscal deficits, including the United States, it had noted that large budget deficits constituted the single most important obstacle to the achievement of satisfactory noninflationary growth over the medium term. The world economic outlook had covered those crucial issues adequately. He would argue against an attempt to reconstitute or rewrite the world economic outlook.

Mr. Végh observed that the Board's discussion seemed to revolve around two basic positions regarding monetary and exchange rate policies. On one side was the position of the European Directors, and on the other, that of the United States Director. The differences in those positions were reflected as well in the statutes of the United States Federal Reserve, in the central banks and monetary authorities of the European countries, and indeed, even in the language of the Maastricht Treaty itself.

The staff representative from the Research Department made the following statement:

> In his statement, Mr. de Groote notes that under the staff's scenario, inflation would come down faster in Germany, and slightly more slowly in other countries that participate in the ERM of the EMS. In his view, this might complicate the achievement of convergence. It should be noted that the table gives changes in the level of the GDP deflator, and not in the inflation rate.
>
> On this issue, it is important to bear in mind that recent improvements in the convergence of inflation rates in the European Community have been achieved partly as a result of the emergence of a significant growth differential between Germany and other countries. If this were closed in part because of a tighter fiscal policy in Germany, the recent gains in price convergence may well diminish. This underlines the need to see the convergence process not only in terms of sufficiently tight macroeconomic policies, but also very much as a task for structural policies, in order to promote convergence without excessive levels of unemployment. This issue, which could be called the question of "sustainable convergence," is discussed briefly in Annex II. Future staff papers on the world economic outlook will give us an opportunity to examine this issue in greater depth.
>
> Mr. de Groote refers to the staff's earlier scenario on German unification, which suggested that the net impact on Germany's partners would be negative given the impact on interest

rates throughout the Community. Mr. de Groote suggests that the staff's model might give the wrong signals again, as it did on the earlier occasion, in his view.

In responding to Mr. de Groote's concern about wrong signals, it may be useful to recall the results of the scenario he is referring to, which were reported in the October 1990 World Economic Outlook (page 47). This scenario showed a relatively small negative impact on output the first year on Germany's ERM partners, as the rise in their exports is offset by the effect of higher interest rates on their investment. The negative net impact on real GDP was estimated to rise to -0.4 percent over the medium term. For Germany, the impact is positive the first two years, but then diminishes over the medium term. The staff would not agree that this scenario was sending the wrong signal. Indeed, considering the current weakness of growth in Europe, the staff would tend to interpret this outcome as in accordance with the earlier scenario. It may also be of interest to note that the February issue of the National Institute Economic Review reports the results of a similar analysis, which shows net negative effects from the unification process (in the third year--1993) ranging from 0.6 percent of GDP in Italy, to 0.9 percent in France, and 1.8 percent in the United Kingdom. For these reasons, the staff thinks that it is useful at the present juncture to illustrate the positive effects on other ERM countries that are likely to result if the consolidation process in Germany were to occur faster than currently envisaged. It would seem particularly relevant for a surveillance exercise such as the world economic outlook to lay to rest the notion that fiscal consolidation in Germany might reduce growth in the rest of Europe, which is a proposition the staff does not share. It may be useful to recall that some scenarios have been omitted in the past from the published world economic outlook in cases in which the simulated effects on exchange rates might be thought to influence financial markets. The scenario in this world economic outlook would not seem to involve such a risk.

Mr. Goos was surprised to see that the effect on interest rates in Table 2 of the world economic outlook paper is relatively small. However, this reflects the relatively buoyant impact on investment that results from the model's forward-looking assessment of the effect of reduced deficits on government borrowing requirements. Because of the crowding-in of investment in this scenario, the demand for financial resources shifts from the public sector to the private sector. Hence, the net impact on long-term interest rates is relatively small. It could also be mentioned that the results would be larger if the assumed fiscal measures were larger and occurred earlier.

Mr. Goos was concerned that the world economic outlook overlooks fiscal adjustment needs in other countries, and he referred

specifically to the United States. However, the staff has in fact reported on several previous occasions a number of scenarios involving fiscal consolidation in the United States, including in the April 1989 World Economic Outlook (page 32). Again in May 1990, the world economic outlook examined the impact of lower defense expenditures as a possible element of the deficit reduction process.

It would perhaps be useful to insert appropriate references to these earlier scenarios, which are still valid as an assessment of the likely consequences of deficit reduction. In any case, given the current magnitude of the U.S. deficits, as pointed out repeatedly also in this world economic outlook, the staff will undoubtedly have to revisit this problem also in future scenario exercises. It would not be desirable, of course, to repeat all previous scenarios again each time a new surveillance issue is discussed.

With reference to the same scenario, Mr. Evans was surprised that the staff had chosen Germany for such a scenario exercise. He asked specifically whether the results would not have been the same if the assumed fiscal contraction had been simulated for any other country.

The results would not have been the same. First, Germany's very special role as the de facto anchor in the European Monetary System as a result of the Bundesbank's long-standing and successful resolve to cope with inflationary pressures needs to be borne in mind. Indeed, Germany has in no way lost credibility for its anti-inflationary stance, despite the recent rise in inflation. Second, there is the fact that the western German economy is still suffering from overheating--particularly evident in the western German labor market--as a result of the massive swing in fiscal policy that came with unification.

All of this implies that German interest rates are still the de facto floor for interest rates in Europe. Other European countries may hope to reduce the premium on their interest rates as they also follow anti-inflation policies, but to reduce interest rates below those in Germany, they would have to acquire greater credibility than the Bundesbank, which would seem hardly likely to occur in the near future.

It follows from this analysis that, whereas fiscal contraction in Germany would tend to lower interest rates throughout Europe, similar contraction in France would have little impact on French or European interest rates. A fiscal contraction in France or the United Kingdom at the present time would therefore be likely to have a negative domestic impact over several years, as well as a small negative impact on ERM partners. Only over the medium term would the effects generally be positive. In current

circumstances, a recommendation to tighten fiscal policy would of course still be appropriate for a country such as Italy, where this may help to improve private sector confidence and reduce inflation expectations. But it would not be associated with the same favorable effects on Europe's overall economic performance in the short run as would the recommended action in Germany. In fact, to give Italy and other countries with excessive deficits the full benefits of fiscal consolidation during the transition to full EMU, it would also be highly desirable to implement measures in Germany that would help to lower the general level of interest rates in Europe.

Another staff representative from the Research Department recalled that some speakers had found the staff's medium-term baseline projections for the developing countries over-optimistic. The current medium-term projection for the growth of developing countries was nearly 5.5 percent--considerably above that reported in the last World Economic Outlook, which had been slightly more than 4 percent. It needed to be borne in mind that the 4 percent figure in the previous world economic outlook exercise had been in some sense a carryover from even less recent exercises, as the medium-term growth rates projected for developing countries had been of the order of 4.5 to 5 percent. The growth projection had been lowered in October 1991 because of the pessimism in response to the outlook at that time, in particular, with regard to the effects of the hostilities in the Middle East. The reasons for optimism about the medium-term growth projections included a considerable reduction in interest rates, a recovery in industrial countries, and the already-observed improved performance in a number of developing countries. The projections were made with an eye to the conditions in individual countries, and assuming the adoption of appropriate medium-term programs in cases in which those were necessary. The staff was projecting a continuation of those successes. In that connection, he recalled Mrs. Sirivedhin's observation that the staff's baseline medium-term scenario for developing countries was optimistic, but not unreachable, if appropriate adjustment policies were pursued, and if the external economic environment was appropriate. That was also a fair assessment of the staff's views regarding developing countries.

It had been observed that the outturn for 1991 had shown large output declines for many country groupings classified by financial criteria, which was correct, the staff representative went on. That reflected the inclusion in those groupings of the countries of Eastern Europe and the former U.S.S.R., as well as some Middle Eastern countries. The staff was aware that such inclusions caused problems of interpretation, but the staff had attempted to deal with them by including figures for developing countries excluding Eastern Europe and the former U.S.S.R. The staff would explore the possibility of three country groupings in future world economic outlook exercises, so that the contamination of the group of developing countries by Eastern Europe and the former U.S.S.R. would not occur.

In the Middle East, while the region as a whole had been influenced by the strong rebound of Iraq and Kuwait from the effects of the recent hostilities, the staff representative concluded, the projected 1992 growth for the region of 3.75 percent--and of 4.75 percent in 1993--did not reflect only the rebound from the war. In that connection, the staff had included numbers for developing countries excluding Eastern Europe, the former U.S.S.R., and the Middle East, because all three areas distorted the overall picture for developing countries. The aggregate for developing countries, excluding those special situations, showed the rate of growth rising from 3.3 percent in 1990 to 4.25 percent in 1991 and 1992. There was therefore clear evidence of an improved performance in a large number of developing countries.

Mr. Goos stated that it would be appropriate to include in the world economic outlook an alternative fiscal consolidation scenario for the United States as well as for Germany. A mere reference that such a scenario had been included in the world economic outlook two years previously would not be appropriate in the light of the systemic problems of the fiscal deficit, and the fact that the influence of the United States on the world economy was larger and more important than that of Germany.

The Chairman said that that could be considered.

Mr. Kafka observed that the second staff representative's explanations spurred him to ask why the pessimistic scenario should not be the baseline scenario, as Mr. Dawson had noted.

Mr. Abbott said that he could not support the inclusion of a new scenario of the U.S. fiscal position in the world economic outlook without its having been discussed first in the Board.

The Chairman said that such a scenario--if the staff resources were available to provide it--would be included in the world economic outlook that was prepared.

Mr. Goos said that since the staff had analyzed thoroughly all the major countries of the world and their impact on the global economy, he would expect that such alternative scenarios would be readily available. Germany might be one of the major problems of the world economy, but it was not the only one. For a more balanced presentation, a scenario was also needed for the United States. If a more balanced approach would be applied only in the context of the forthcoming world economic outlook, he would have to insist that the scenario be deleted from the present report.

Mr. Evans commented that perhaps the scenario that Mr. Goos was referring to could be placed in an appendix, along with the explanation that had been given by the staff representative from the Research Department.

Mr. Solheim observed that the problem that the staff representative from the Research Department had referred to about the impact of the cyclical situation on the level of real interest rates was of particular

interest to the Nordic countries. From that point of view, the scenario on Germany should be retained--at least in the appendix, if not in the text.

The Executive Directors agreed to continue their discussion on April 10, 1992.

2. ARMENIA - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Armenia, recommending the approval of the draft resolution on membership for Armenia for submission to the Board of Governors for a vote without meeting (EBD/92/63, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/63 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Armenia attached to EBD/92/63 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9975-(92/48), adopted
April 8, 1992

3. BELARUS - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Belarus, recommending the approval of the draft resolution on membership for Belarus for submission to the Board of Governors for a vote without meeting (EBD/92/73, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/73 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Belarus attached to EBD/92/73 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9976-(92/48), adopted
April 8, 1992

4. ESTONIA - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Estonia, recommending the approval of the draft resolution on membership for Estonia for submission to the Board of Governors for a vote without meeting (EBD/92/65, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/65 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Estonia attached to EBD/92/65 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9977-(92/48), adopted
April 8, 1992

5. KAZAKHSTAN - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Kazakhstan, recommending the approval of the draft resolution on membership for Kazakhstan for submission to the Board of Governors for a vote without meeting (EBD/92/68, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/68 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Kazakhstan attached to EBD/92/68 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9978-(92/48), adopted
April 8, 1992

6. LATVIA - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Latvia, recommending the approval of the draft resolution on membership for Latvia for submission to the Board of Governors for a vote without meeting (EBD/92/67, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/67 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Latvia attached to EBD/92/67 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9979-(92/48), adopted
April 8, 1992

7. LITHUANIA - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Lithuania, recommending the approval of the draft resolution on membership for Lithuania for submission to the Board of Governors for a vote without meeting (EBD/92/66, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/66 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Lithuania attached to EBD/92/66 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9980-(92/48), adopted
April 8, 1992

8. MOLDOVA - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Moldova, recommending the approval of the draft resolution on membership for Moldova for submission to the Board of Governors for a vote without meeting (EBD/92/71, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/71 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Moldova attached to EBD/92/71 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9981-(92/48), adopted
April 8, 1992

9. RUSSIAN FEDERATION - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for the Russian Federation, recommending the approval of the draft resolution on membership for the Russian Federation for submission to the Board of Governors for a vote without meeting (EBD/92/70, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/70 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Russian Federation attached to EBD/92/70 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9982-(92/48), adopted
April 8, 1992

10. TAJIKISTAN - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Tajikistan, recommending the approval of the draft resolution on membership for Tajikistan for submission to the Board of Governors for a vote without meeting (EBD/92/72, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/72 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for the Republic of Tajikistan attached to EBD/92/72 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9983-(92/48), adopted
April 8, 1992

11. TURKMENISTAN - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Turkmenistan, recommending the approval of the draft resolution on membership for Turkmenistan for submission to the Board of Governors for a vote without meeting (EBD/92/75, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/75 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for Turkmenistan attached to EBD/92/75 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9984-(92/48), adopted
April 8, 1992

12. UKRAINE - MEMBERSHIP - REPORT OF COMMITTEE

The Executive Directors considered a report by the Chairman of the Committee of the Whole on Membership for Ukraine, recommending the approval of the draft resolution on membership for Ukraine for submission to the Board of Governors for a vote without meeting (EBD/92/64, 4/3/92).

The Executive Directors adopted the following decision:

1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund on the proposed Resolution attached to EBD/92/64 (4/3/92).

2. The Secretary is directed to send the Report and proposed Resolution on Membership for Ukraine attached to EBD/92/64 to each member of the Fund by rapid means of communication on or before April 10, 1992.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund before 12:00 p.m. Washington time on April 27, 1992. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day allowed for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate to carry out the purpose of this decision.

Decision No. 9985-(92/48), adopted
April 8, 1992

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/47 (4/6/92) and EBM/92/48 (4/8/92).

13. STRUCTURAL ADJUSTMENT FACILITY (SAF), ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF), AND ESAF TRUST - AMENDMENT

- Structural Adjustment Facility - Amendment of List of SAF-Eligible Members

Albania, Angola, Côte d'Ivoire, Dominican Republic, Egypt, Honduras, Mongolia, Nicaragua, Nigeria, the Philippines, and Zimbabwe are eligible to receive balance of payments assistance under the Structural Adjustment Facility. The list annexed to Decision No. 8240-(86/56) SAF, adopted March 26, 1986, as amended, shall be amended accordingly.

Decision No. 9986-(92/48) SAF, adopted April 7, 1992

- Enhanced Structural Adjustment Facility - Amendment

The following sentence shall be added to paragraph 2(a) of Decision No. 8757-(87/176) SAF/ESAF, adopted December 18, 1987:

"Assistance under that Facility may also be provided from loans by the Enhanced Structural Adjustment Facility Trust not made in conjunction with loans from the Structural Adjustment Facility to members that are eligible for assistance from the Structural Adjustment Facility and have notified the Fund of their intention not to make use of the resources of the Structural Adjustment Facility."

Decision No. 9987-(92/48) SAF/ESAF, adopted April 7, 1992

- ESAF Trust - Amendment of Access Limits

The following paragraph 3 shall be added to Decision No. 8845-(88/61) ESAF, adopted April 20, 1988:

"3. The maximum limits in paragraphs 1 and 2 shall be reduced by the amount of potential access to the resources of the Structural Adjustment Facility for members that are eligible for assistance from the Structural Adjustment Facility and have notified the Fund of their intention not to make use of the resources of the Structural Adjustment Facility."

Decision No. 9988-(92/48) ESAF, adopted April 7, 1992

- ESAF Trust - Transfer of Resources from Special Disbursement Account (SDA) to ESAF Trust and Retransfer to SDA - Amendment

The following paragraph 4 shall be added to Decision No. 8760-(87/176), adopted December 18, 1987, and the present paragraph 4 shall be renumbered accordingly.

"Resources transferred under this decision shall be available to cover liabilities that are authorized to be discharged by the Reserve Account with respect to members that are eligible for assistance from the Structural Adjustment Facility and have notified the Fund of their intention not to make use of the resources of the Structural Adjustment Facility."

Decision No. 9989-(92/48), adopted April 7, 1992

14. ALBANIA - REPRESENTATIVE RATE FOR ALBANIAN LEK

The Fund finds, after consultation with the authorities of Albania, that the representative rate for the lek, under Rule 0-2(b)(i), is the rate of the lek against the U.S. dollar in the official exchange market as reported by the State Bank of Albania. (EBD/92/77, 4/3/92)

Decision No. 9990-(92/48), adopted April 7, 1992

15. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/92/77 (4/6/92) is approved.

APPROVED: December 14, 1992

LEO VAN HOUTVEN
Secretary