

INTERNATIONAL MONETARY FUND

Secretary's Journal of Executive Board
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9:30 a.m., June 12, 1987

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

Executive Directors

Dai Q.

J. de Groote
A. Donoso
M. Finaish
G. Grosche
J. E. Ismael
A. Kafka
T. P. Lankester
H. Lundstrom
M. Massé

Y. A. Nimatallah

H. Ploix

C. R. Rye
G. Salehkhoul

K. Yamazaki

Alternate Executive Directors

E. T. El Kogali

M. K. Bush

B. Goos
J. Reddy
J. Hospedales
M. Foot

D. McCormack
C. V. Santos
I. A. Al-Assaf
E. Ayales, Temporary

J. de Beaufort Wijnholds

O. Kabbaj
L. E. N. Fernando
M. Sugita
F. Di Mauro, Temporary

L. Van Houtven, Secretary and Counsellor
S. J. Fennell, Assistant

1. Venice Summit - Surveillance and Indicators; and
Enhancement of Structural Adjustment Facility Page 3

Also Present

African Department: A. D. Ouattara, Counsellor and Director; Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director. Legal Department: F. P. Gianviti, Director; R. H. Munzberg. Middle Eastern Department: A. S. Shaalan, Director. Research Department: A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director. Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: M. B. Chatah, S. M. Hassan, G. Pineau, I. Puro, I. Sliper, N. Toé, A. Vasudevan. Assistants to Executive Directors: V. J. Fernandez, M. Hepp, L. Hubloue, R. Manfredi Selvaggi, G. Schurr, E. L. Walker.

1. VENICE SUMMIT - SURVEILLANCE AND INDICATORS; AND
ENHANCEMENT OF STRUCTURAL ADJUSTMENT FACILITY

The Managing Director made the following statement on the Venice Summit meeting, held on June 10, 1987:

In my view, the Venice Summit was very successful, particularly as far as the main focus of the Fund's interests is concerned. The Heads of State or Government recalled the central role of the Fund in their communiqué. They also endorsed the enlargement of resources available for the Structural Adjustment Facility, a subject I have addressed in detail in a separate statement. In addition, the communiqué addressed the importance of the coordination of economic policies among the seven major industrial countries and of strengthening, with the assistance of the Fund, the surveillance of their economies using economic indicators.

The aims set forth in the Venice communiqué are very similar to those expressed in the Interim Committee communiqué. It will be important that the work done in the Fund to respond to the Interim Committee's mandate is fully consistent with the work done to support coordination efforts among the Group of Seven countries.

The stages in the practical application of indicators in the Fund's work would seem to be the following:

(i) The compilation of medium-term objectives and projections prepared by individual countries;

(ii) The preparation by the Fund staff of a consistent set of short- and medium-term projections for the world economy based on existing policies;

(iii) The development of alternative scenarios based on different evolutions of policies and market trends;

(iv) The discussion in the Executive Board and in the Interim Committee of the various scenarios, and, it is to be hoped, the reaching of a consensus on a medium-term course that could be considered desirable and sustainable; and

(v) The monitoring of developments as they unfold so as to detect any departure from the intended course and facilitate the consideration of remedial action.

The staff is preparing a paper exploring these issues for discussion by the Board on July 22. A companion paper will consider how to incorporate indicators into the principles and procedures for surveillance. In addition, staff and management

will continue to cooperate with the major industrial countries in their policy coordination efforts. I will be prepared, when requested, to provide statistics and analysis examining economic developments and prospects in each country and assessing progress and problems in achieving objectives and projections.

Let me make clear that in participating in meetings of the major industrial countries, the management and staff will regard their key functions as including: first, a focus on the multi-lateral interactions of policies among the major countries; and second, an emphasis on the implications for the rest of the world of developments in the major countries.

These are very important responsibilities for the Fund. We will indeed make our best effort to carry out this mandate.

The Managing Director then made the following statement on the enhancement of the structural adjustment facility:

We have been making efforts to enhance the resources that can be made available to low-income countries facing protracted balance of payments difficulties in conjunction with the structural adjustment facility. I was most gratified by the response of the Heads of State and of Governments at the Venice Summit and greatly appreciate the vital political support provided by paragraph 27 of the Economic Declaration. I wish, with respect, to express through yourselves my gratitude to the Governors of these countries for their understanding and for the positive attitude they have taken to this initiative.

We must now build upon this support. Our objectives must be to continue to ensure that the Fund plays its full role in assisting the poorest of our member countries to follow growth-oriented adjustment programs and that the assistance provided is on terms and conditions complementary to those of the resources that may be forthcoming under other initiatives currently under discussion to help these countries. This role for the Fund was endorsed at the last meeting of the Interim Committee. Given the current difficult circumstances, it is important that the volume of resources available to support structural adjustment arrangements with member countries be tripled and that these resources be in place as quickly as possible. A number of complex and important issues arise in this connection.

1. A first issue concerns the amounts of additional resources that are necessary. It is clear that if structural adjustment facility-eligible countries are to be given an opportunity to pursue strong and efficiently implemented growth-oriented adjustment programs, without being unduly constrained by a lack of external financing, a large amount of additional resources will

be required. Staff estimates indicate that, even on the assumptions of generous Paris Club rescheduling where necessary and appropriate, a continuation of growing bilateral aid flows, a rapid completion of the IDA VIII replenishment, and full disbursement of existing structural adjustment facility resources, an additional SDR 6 billion of concessional resources is needed and, to say the least, could be efficiently used over the next three years.

2. These estimates of potential utilization of the enhanced facility have been prepared on the expectation that the additional resources will be made available on highly concessional terms. For most of the countries under discussion, it is critical to reduce the present level of debt service, and to improve the external debt profile while assuring the required net capital flow by providing sufficient concessional resources. Thus it is important that the grant element implicit in the terms of the existing structural adjustment facility continue to characterize loans to recipients under an enhanced facility. It is equally important that the additional resources are used to implement, in a medium-term framework, sound policies that will effectively promote growth and balance of payments viability.

3. There are important questions as to the amounts of resources that should be made available by each contributing member country. This issue will need to be discussed carefully with contributors. At this time, let me simply appeal to the generosity of member countries and to their understanding of the needs implied by the current situation to provide as many resources as they can to enhance the facility. I would note that when seeking to mobilize concessional resources to help the adjustment efforts of the poorest countries it is proper to seek help from a wide circle of countries.

4. Important questions concerning the possible modalities through which additional resources can be provided will need to be examined carefully. I believe that the financial arrangements must meet the following criteria: (i) resources should be made available quickly to recipient countries, generally at the same time as disbursements under a structural adjustment facility arrangement. The amounts should, of course, be sufficient together with other resources to make the adjustment programs viable; and (ii) recipient countries must be treated uniformly with regard to the terms of the loans.

5. Two of the ways in which these criteria could be met are: (i) a trust account administered by the Fund, that would borrow or receive concessional resources from contributing countries and then lend these to structural adjustment facility-eligible countries in close association with use of the resources of the structural adjustment facility; and (ii) parallel bilateral

lending agreements, under which bilateral loans would be extended directly to structural adjustment facility-eligible countries in close association with loans from the facility, on terms and conditions agreed in advance, including provisions for the automatic triggering of disbursements upon decisions by the Executive Board to approve the use of structural adjustment facility resources.

6. Another issue concerns the amount and conditions of loans under the enhanced facility to qualifying structural adjustment facility-eligible member countries. A survey of the resource requirements of structural adjustment facility-eligible countries indicates that their requirements vary widely. Among the other demands on their external resources, those countries have very large external debt repayments falling due in coming years. These include repurchases and charges to the Fund during 1988-90 in a total amount of SDR 4.8 billion. In addition, overdue obligations of eight of these countries as of end-May amount to nearly SDR 1 billion. Thus, access guidelines affecting the augmented resources will need to allow for appropriate differentiation. Possibly the best approach would be to provide for exceptional access on a case-by-case basis determined, in particular, by the strength of the adjustment effort.

There is a virtue in simplicity and it would be preferable to make the terms of structural adjustment facility-associated loans the same as those on structural adjustment facility loans. The conditions that would be attached to loans under the enhanced facility would, of course, have to be carefully considered, but the objective should be unchanged, namely that of ensuring a viable growth-oriented adjustment program.

7. I have already emphasized the urgency of moving forward quickly to secure the resources required and to establish the operating procedures of the enhanced facility. On my instructions, a staff working group has been formed that will undertake the necessary preparatory work. The group consists of Mr. Boorman (ETR), Mr. Leddy (TRE), and Mr. Munzberg (LEG). The working group hopes to initiate discussions with some major contributing countries in the very near future, and will be developing the procedures for operation of the enhanced facility as quickly as possible. These are inevitably complex and delicate matters and we shall have to seek the guidance of the Board frequently as we attempt to develop the appropriate modalities for securing and disbursing these funds. I will, of course, keep you informed of our progress as the process develops.

Finally, I would remind you that we will be conducting the first review of our experience with operations under the structural adjustment facility on June 19, 1987. The staff papers for that review (EBS/87/46 and Supplement 1) have raised a number of important issues on which the guidance of Directors would be

most helpful. As you know, our procedures regarding the operation of the facility are still evolving and the views of Directors are essential at this stage of the process. I would therefore urge Directors to give special attention to the issues that have been raised by the staff in the papers for the review and look forward to a productive and interesting discussion of these important questions one week from today.

Mr. Massé remarked that his authorities fully supported the Managing Director's efforts. In some form or other, the creditor countries would eventually have to provide additional resources, whether directly or through absorbing as burden-shared Fund losses the overdue obligations that were due to the Fund by a number of members.

The proposed increase in resources available under the structural adjustment facility was only one aspect of an integrated scheme that should be aimed at reducing and eventually eliminating the burden of international debt on the poorest countries, Mr. Massé commented. The resources to be made available under IDA VIII would enable the World Bank to play a part in that scheme and to reduce the burden of debt owed by the poorest countries to the Bank. Mr. Ballardur and Mr. Lawson had made a number of proposals at the Spring 1987 meeting of the Interim Committee that could be incorporated into the effort to reduce the debt burden of those countries. Furthermore, the Paris Club was beginning to consider the issue of concessional interest rates on rescheduled official debt. In sum, the enhancement of the structural adjustment facility should be considered as one of the necessary components of a scheme that would help to reduce the burden of debt on the poorest countries. The countries that would be the beneficiaries of such an integrated scheme should be fully informed of its ramifications, so that they give it their full support.

Mr. El Kogali stated that the member countries in his constituency very much welcomed the enhancement of the structural adjustment facility. He appreciated the efforts of management and creditor countries to raise the additional resources that would be required. For its part, the Executive Board should ensure that the conditionality attached to the use of resources under that facility was consistent with the circumstances of the poorest countries. Furthermore, consideration should be given to helping those members in arrears to the Fund to overcome their problems so that they could make use of those resources.

Mr. Salehkhoul stated that his authorities commended the Managing Director for taking the initiative to enhance the structural adjustment facility. However, the augmentation of the resources available under that facility should not provide a pretext for any increase in conditionality.

The Managing Director remarked that the Executive Board would have an opportunity to discuss further details of the arrangements to enhance the structural adjustment facility in the following week. However, it would be impossible to receive the necessary financial support from the

international community if debtor countries were unwilling to adopt strong policies. The appropriate adjustment strategy to be pursued in each case must be mutually agreed between debtor and creditor countries.

Mr. Nimatallah stated that Fund staff and management should initiate efforts immediately to raise the additional resources and work out the modalities of the enhanced facility, so that the funds could be disbursed as soon as possible.

Mr. Grosche agreed that the resources should be made available to the lowest-income countries as soon as possible, while ensuring their efficient use in promoting adjustment and growth. As the Fund should not consider the possibility of rescheduling repurchases, the assistance under the enhanced structural adjustment facility should be made available only after those countries had serviced their outstanding debt to the Fund. However, in promoting the idea of enhancing the structural adjustment facility, the assistance that could be provided to those countries in servicing their outstanding debt, including that to the Fund, should not be stressed to the detriment of the improvement in the Fund's ability to assist them in the promotion of adjustment and growth.

Mr. Santos commented that he joined other Directors in commending the Managing Director's efforts to enhance the structural adjustment facility. The progress made at the Venice Summit in that respect was very encouraging for the poorest countries. He agreed with Mr. Massé that that initiative must be seen as part of a broader scheme to alleviate the burden on debtor countries.

The Executive Directors concluded their discussion.

LEO VAN HOUTVEN
Secretary