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04

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/13

10:00 a.m., January 28, 1985

J. de Larosière, Chairman

Executive Directors

A. Alfidja
C. H. Dallara
J. de Groote
B. de Maulde

H. Fujino
G. Grosche

A. Kafka

E. I. M. Mtei

Y. A. Nimatallah
P. Pérez
J. J. Polak

N. Wicks

Zhang Z.

Alternate Executive Directors

M. K. Bush
H. G. Schneider

T. Alhaimus
M. Sugita

T. Sirivedhin, Temporary
L. Leonard

A. Lindā
A. S. Jayawardena

M. A. Weitz, Temporary
J. E. Suraisry

J. de Beaufort Wijnholds
A. V. Romuáldez

O. Kabbaj
T. A. Clark
N. Coumbis

Wang E.

L. Van Houtven, Secretary
R. S. Laurent, Assistant

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Also Present

Staff Association Committee: E. E. Umpiérrez, Acting Chairman; I.-M. Fayad, D. C. McDonald, K. Schumacher, M. Stuart. Administration Department: R. Tenconi, Director; S. L. Chung, D. S. Cutler, A. D. Goltz, J. G. Keyes, M. Rosseel, European Department: B. E. Rose, Deputy Director. Exchange and Trade Relations Department: C. D. Finch, Director; M. Guitián, Deputy Director. Legal Department: G. P. Nicoletopoulos, Director. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; R. Noë. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, H. A. Arias, D. Hammann, G. E. L. Nguyen, J.-C. Obame, P. Péterfalvy, G. W. K. Pickering, E. M. Taha, A. Vasudevan. Assistants to Executive Directors: I. Angeloni, M. B. Chatah, J. de la Herrán, J. J. Dreizzen, G. Ercel, G. D. Hodgson, A. K. Juusela, J. A. K. Munthali, K. Murakami, A. J. Tregilgas, E. L. Walker.

1. GROUP OF TEN - DEPUTIES' MEETING - REPORT BY STAFF

The Treasurer and Counsellor made the following statement:

The Deputies of the Group of Ten met for a day last Thursday at the Paris Office of the Fund to continue their debate on the functioning of the international monetary system. They had two points on their agenda: issues relating to international liquidity; and an annotated draft outline of their final report to the Ministers and Governors of the Group of Ten.

First, on international liquidity, the Deputies continued their discussion, based on a background paper by the Fund staff entitled "The Role of Reserves in the International Monetary System," which had been distributed to the Executive Board on December 11, 1984 (SM/84/269). As you know, the central theme of that paper is that, under the prevailing conditions of floating exchange rates of major currencies, the supply of official reserves is determined mainly by the demand for them, that reserves are not a major determinant of the performance of the system but largely the result of the way in which the system performs, leading to the conclusion that surveillance over exchange rates and the factors and policies that determine them has a crucial role to play. The Director of the Research Department, who introduced the staff paper, reminded the Deputies that the paper was a companion paper to two earlier papers supplied by the Fund staff, one on the role of the SDR, and one on the sources of reserve creation and control over them. He also pointed out that, while the supply for reserves was determined largely by the terms and conditions under which reserves could be borrowed from the markets, SDR allocations (and Fund credit) had a role to play in the supply of reserves, in the view of the staff.

The general tenor of the discussion was that the supply of reserves was determined largely by the conditions on the international capital markets, by the economic and monetary policies of the main reserve-currency countries, and by the creditworthiness of the countries borrowing reserves, and that surveillance over these elements of the system needed to be reinforced.

Against this general background, certain nuances and qualifications emerged from the discussion. While these views are not shared by all Deputies, a few may nevertheless be worth noting:

(i) Although markets tended to be a fairly elastic supplier of reserves, they had certain shortcomings, such as excessive swings from overlending to underlending; nor were the terms and conditions sufficiently calibrated to reflect differences in creditworthiness. Markets could also give wrong signals, and their knowledge of country risks was incomplete.

(ii) The terms and conditions on which markets supplied international reserves depended, inter alia, on the policies and performance of major reserve-currency countries. These reserve centers carried, therefore, a special responsibility for the state of international liquidity.

(iii) While the supply of reserves was largely demand-determined, there continued to be, in the view of a number of Deputies, a need to create official reserves; in their view, neither the quality nor the distribution of reserves was optimal. Thus, in their view, the creation of official reserves had a positive role to play.

The general view was that the current system of creating reserves was fairly elastic, but some qualified this by saying that the system needed to be improved, as it was liable to sudden changes in market sentiment and depended to a considerable extent on the domestic economic performance and policies of major economies, which were not always or necessarily in accord with international needs. Essentially improvements should be made in two directions: (i) to strengthen international surveillance over the performance and policies of individual countries; and (ii) to improve the functioning of international banking and capital markets. Although SDR allocations were not specifically discussed, a number of Deputies maintained that SDRs had a role to play to make the system less dependent on the two elements mentioned; in contrast, however, those Deputies who have not been in favor of an SDR allocation made it quite clear that they do not feel that an allocation would be justified.

On the second point of their agenda, the Deputies discussed at some length an annotated draft outline--supplied by the Chairman of the Deputies, Mr. Dini--of the final report that the Deputies are to present to the Ministers and Governors of the Group of Ten in June 1985. The outline focused on the four main elements of the Work Program of the Deputies: (i) the functioning of floating exchange rates; (ii) how to strengthen international surveillance with a view to promoting greater policy coordination and exchange rate stability; (iii) the management of international liquidity; and (iv) the role of the IMF. While a lot of details were contributed during the debate of the outline, nothing of significance could be reported that was different from the earlier debates on the substance of the issues. The outline also contains a final chapter, on the outline of recommendations to be made for approval by the Ministers and Governors, but, at this stage, that part of the outline was left blank.

In conclusion, further meetings of the Deputies of the Group are envisaged for March, followed by a meeting in April sometime prior to the meetings of the Interim and Development Committees, and another meeting in mid-May at which the final

draft of the report may be discussed. In line with earlier intentions, the Deputies are planning to finish the report by the end of May or early June so that it could be considered by Ministers and Governors of the Group of Ten at a meeting tentatively planned for the last third of June 1985.

2. EXPATRIATE BENEFITS - REVIEW

The Executive Directors considered, in restricted session, a staff paper on the review of expatriate benefits (EBAP/84/266, 12/10/84). They also had before them a paper prepared by the Staff Association Committee concerning the review of expatriate benefits (EBAP/84/284, 12/27/84).

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/12 (1/25/85) and EBM/85/13 (1/28/85).

3. ACCESS TO FUND ARCHIVES

The Executive Board approves the proposed guidelines under which a researcher for the Gutt Foundation will be granted access to Fund documents in connection with a study of Belgium's position in the early years of the Fund's operations, as set forth in EBD/85/30 (1/23/85).

Decision No. 7896-(85/13), adopted
January 25, 1985

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director and by an Advisor to Executive Director as set forth in EBAP/85/20 (1/24/85) is approved.

APPROVED: October 29, 1985

LEO VAN HOUTVEN
Secretary