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0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/132

10:00 a.m., November 4, 1992

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

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
G. K. Arora	L. E. N. Fernando
Che P.	Wei B.
T. C. Dawson	Q. M. Krosby
J. de Groote	J. Prader
E. A. Evans	A. M. Tetangco
R. Filosa	J. Papadakis
I. Fridriksson	
H. Fukui	N. Tabata
B. Goos	B. Esdar
J. E. Ismael	K.-T. Hetrakul
D. Kaeser	
A. Kafka	J. C. Jaramillo
K. G. Kagalovsky	A. Mozhin
J.-P. Landau	I. Martel
R. Marino	G. Torres
A. Mirakhor	O. Kabbaj
L. J. Mwananshiku	B. S. Dlamini
D. Peretz	J. Dorrington
G. A. Posthumus	Z. Trbojevic
C. V. Santos	
A. S. Shaalan	Y. Y. Mohammed
D. E. Smee	G. F. Murphy
A. G. Zoccali	

L. Van Houtven, Secretary and Counsellor
S. L. Yeager, Assistant

Also Present

Administration Department: H. J. O. Struckmeyer, Deputy Director. African Department: E. L. Bornemann, Deputy Director; G. E. Gondwe, Deputy Director. Central Asia Department: Y. Horiguchi. European I Department: G. Bélanger. European II Department: J. Odling-Smee, Director. External Relations Department: S. J. Anjaria, Director; M. R. Kelly, Deputy Director; G. Hacche. Fiscal Affairs Department: V. Tanzi, Director. IMF Institute: P. B. de Fontenay, Director. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director. Research Department: G. Calvo, R. A. Feldman, F. Larsen. Secretary's Department: G. Djeddaoui, R. S. Franklin, A. Jbili, A. Leipold, M. J. Miller. Southeast Asia and Pacific Department: K. Saito, Director. Statistics Department: M. Caiola, Deputy Director. Treasurer's Department: D. Williams, Treasurer; D. Gupta. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Office of Budget and Planning: L. A. Wolfe, Director. Office in Geneva: H. B. Junz, Special Trade Representative and Director. Special Advisor to the Managing Director: P. R. Narvekar. Personal Assistant to the Managing Director: R. Saunders. Advisors to Executive Directors: J. M. Abbott, M. A. Ahmed, P. Bonzom, M. B. Chatah, R. F. Cippa, B. R. Fuleihan, G. Y. Glazkov, J. Jamnik, J. M. Jones, W. Laux, N. Mancebo, P. A. Merino, R. Meron, M. Nakagawa, J.-C. Obame, L. M. Piantini, F. A. Quirós, A. Raza, B. A. Sarr, B. Szombati. Assistants to Executive Directors: S. Al-Huseini, J. H. Brits, J. M. Burdiel, J. A. Costa, S. B. Creane, N. A. Espenilla Jr., M. A. Hammoudi, M. E. Hansen, K. M. Heinonen, O. A. Himani, J. Jonas, V. Kural, K. J. Langdon, G. J. Matthews, S. McDougall, F. A. Sorokos, R. Thorne.

1. EXECUTIVE BOARD

The Chairman made the following opening remarks:

It gives me great pleasure to welcome all of you to this first meeting of our new Executive Board. This is indeed an historic occasion for the International Monetary Fund: today, its Executive Board takes on the universal dimension that was envisioned by the Fund's founding fathers at Bretton Woods. When the first Board met on May 6, 1946, 12 Executive Directors represented 38 countries--a very small universe indeed. Today, there are 24 Executive Directors here, representing 173 member countries--almost the entire world.

Let us imagine ourselves joining our founding fathers at their inaugural meeting in Savannah, Georgia. With his very special sense of humor, Lord Keynes suggested that one of the most serviceable blessings that could be bestowed on the twin Bretton Woods institutions at their birth was "a Joseph's coat, a many-colored raiment" that would serve, he said, "as a perpetual reminder that they belong to the whole world and that their sole allegiance is to the general good, without fear or favor to any particular interest." But as Keynes was a very experienced man, he hastened to add that these were "pious words exceedingly difficult to fulfill," before going on to observe that there had been "scarcely any enduringly successful experience yet of an international body which has fulfilled the hopes of its progenitors. Either an institution has become diverted to be the instrument of a limited group, or it has been a puppet of sawdust through which the breath of life does not blow. Every incident and adjunct of our new-born institutions must be best calculated to emphasize and maintain their truly international character and purpose."

Ladies and gentlemen, your predecessors here have done their best to remain faithful to these recommendations--and, I should say, with remarkable success. You now take up the reins of an institution which has served its purposes well. But Keynes could not have imagined at that time, when the Governors were celebrating the promise of freedom following World War II, that the Iron Curtain would soon descend, not to be lifted for several decades, before we would be able to become universal in the truest, broadest way.

So today is a day to begin. Or to begin again. Not, of course, with the challenges of reconstruction, but with matters of similar urgency on the world agenda:

- poverty is still with us, keeping hundreds of millions of people in conditions which are below the minimum standard of human life and dignity,
- refugees are still fleeing from their native countries,
- protectionism is gaining ground,
- recession has not been overcome, and
- transformation is a Promethean task for our new members' present generation.

As I put it to the annual assembly of Governors: "They cannot succeed on their own. Provided they implement good reforms to the best of their ability, the support of the community of nations must be extended to them....Never--I repeat, never--since the reconstruction after World War II, have we seen such a need for cooperation in a shared enterprise that promises so much for the common destiny of mankind."

And this, of course, applies to all countries in difficulty, whatever their problems, making similar efforts.

Facing such challenges, our institution will have to undergo an unprecedented transformation, and against that backdrop, it is fitting to devote our first meeting to an exchange of views on the Fund's work program for the months ahead. At the Annual Meeting, our Governors called upon us to remain innovative in our thinking, creative in our policy advice, and incisive in our analysis as we continue our efforts to strengthen the international monetary system and deepen further our work in support of member countries. As an institution, we are enriched, both in the Executive Board and in the staff, by the experience and history of our new members. We are also challenged by our heightened interdependence as we seek to assist the rapid and smooth integration of our new members into the international financial community. The expectations of all our members are higher than ever. The Fund, with your help, and the help of the countries you represent, must now rise to the challenges of shaping its role as a truly universal institution for the decade--and, indeed, the century--that lies ahead. I am reassured by the wealth of knowledge, expertise, and modesty that members of the Board bring to this task, and I look forward to our work together in the decisive period ahead.

The Chairman then welcomed to the Executive Board Mr. Kaeser, Mr. Kagalovsky, Mr. Marino, Mr. Mwananshiku, Mr. Shaalan, Mr. Smee, and Mr. Zoccali as Executive Directors, and Mrs. Hetrakul, Mr. Mohammed, Mr. Mozhin, Mr. Murphy, Mr. Tetangco, and Mr. Torres as Alternate Executive Directors.

2. WORK PROGRAM

The Executive Directors considered a statement by the Managing Director on the work program following the September 1992 ministerial meetings, and a revised tentative schedule of Executive Board meetings (Secretary's Circular No. 92/103, 11/3/92). They also had before them background material on trends in recent Board activities (Secretary's Circular No. 92/102, 11/3/92).

The Managing Director's statement read as follows:

> Having had an opportunity to reflect on the views expressed by Governors at the Annual Meetings and by members of the Interim and Development Committees, I conclude that we are being requested to deepen further our work in the area of policy advice and balance of payments support for our expanded membership, at a time when the Fund has become a truly global institution. The coming into effect of the quota increases under the Ninth Review will be critically important to that effort. There are probably lessons to be drawn from the recent events in the foreign exchange and financial markets, and we need, in particular, to focus on their systemic implications and examine how to strengthen further our surveillance over industrial countries.
>
> As you will note, a broad range of tasks will come up for discussion and review by the Board in the next few months. In view of the very heavy burden of work that lies ahead, we will need to be selective in our work priorities. In this statement, I will cover in detail the work program for the period up to the next spring meetings in late April 1993, and provide indications of other work to be undertaken or followed up in the period up to the Annual Meetings.
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> 1. Completion of the Ninth General Review of Quotas, Entry into Force of the Third Amendment, and Related Matters
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> The requirements for the effectiveness of the Ninth General Review of Quotas and of the proposed Third Amendment are likely to be met shortly, and members will need to make the increase of their quota effective through payment as prescribed. The staff will issue an amendment to the current operational budget to accommodate these payments, and will be in touch with member countries to facilitate the payments for their quota increases.

Members that have not yet consented to their quota increase may still do so, not later than November 30, 1992. The Executive Board may consider extending the period for consent beyond the latter date; in that connection, the staff will prepare a paper that will review all relevant factors, including the particular situation of countries with protracted overdue financial obligations to the Fund that may still wish to consent to the increase in their quota, and that are judged to be cooperating with the Fund toward the settlement of their overdue obligations.

Also, in connection with the quota increase, we will need to review the level of the Fund's SDR holdings and the guidelines for the allocation of currencies under the operational budget. To that effect, the staff will prepare documentation for consideration by the Executive Board in early January 1993. Following the payments of the quota increases, a paper updating the Fund's liquidity position will be circulated for the information of the Board. The regular semiannual reviews of Fund liquidity will take place in March and September 1993.

On October 28, the Board considered a further paper on access policy and limits in connection with the quota increase (EBS/92/159, and Sup. 1) and draft decisions on access policies under the Ninth Review of Quotas.

In connection with the entry into force of the proposed Third Amendment of the Articles of Agreement, a paper proposing changes in Fund decisions that are needed to give effect to the suspension of voting and related membership rights will be prepared for consideration in December.

The preparatory work on the Tenth General Review of Quotas will proceed with a paper examining the working of the quota formulas, for consideration by the Board at a time to be agreed. Depending on the progress under the Tenth Review, the Board of Governors may resolve to continue work on this matter beyond the deadline of end-March 1993. In that case, a draft resolution would need to be submitted for approval by the Board of Governors before the end of March 1993.

Finally, the Executive Board considered on October 28 a paper on the amendment and renewal of the General Agreements to Borrow. Decisions in this respect must be taken by December 24, 1992. A decision on the amendment would require the concurrence of all participants.

2. World Economic Outlook, Strengthening of Surveillance, International Policy Coordination, and SDR Issues

Concerns and uncertainties surrounding world economic developments have intensified recently, as reflected in last month's currency turmoil. These developments call for an even closer monitoring of economic and financial developments, and for effective actions to strengthen international policy coordination. We see merit in an early reassessment of the world economic outlook in light of recent events, as a basis for a Board discussion that would focus on the broader causes of the recent turbulence in financial markets and on the policy adjustments required to reduce the probability of their recurrence. In addition to the issues confronting European countries, the discussion would also revisit the U.S. budget deficit problem and review the situation in Japan after the recently announced stimulus package. Board discussion of the world economic outlook update could take place on December 16, 1992.

The regular world economic outlook discussion, ahead of the April 1993 ministerial meetings, will involve a more comprehensive reappraisal of the world economic situation and of the prospects for strengthening economic performance. It will also devote particular attention to the process of fiscal consolidation and structural reform in the industrial countries, to factors accounting for the differences in growth performance in the developing countries, and to progress in macroeconomic stabilization and economic restructuring in former centrally planned economies. Board discussion of the regular world economic outlook could be scheduled for April 12-14, 1993. The periodic informal Board sessions on exchange market developments, in addition to those in conjunction with the world economic outlook discussions, could be scheduled for late January and early March 1993.

The Executive Board will be kept informed of major developments in the Uruguay Round negotiations, and will have the opportunity, once the outcome of these negotiations becomes clearer, to consider its implications for the Fund.

At the time of our discussion of the work program in May 1992, we had envisaged taking up the biennial surveillance review in October 1992, together with a review of the temporary shift in consultation cycles. However, recent events require us to reflect further on how to strengthen the Fund's surveillance role, particularly vis-à-vis the major industrial countries, in an effort to improve the efficacy of our policy advice and to foster greater international economic cooperation. Progress in this area will certainly alleviate the concerns of many, including the Group of Twenty-Four developing countries which, on several occasions, have drawn our attention to the effects of the macroeconomic policies of industrial countries on the adjustment efforts of developing countries. The staff will continue its reflections on these issues, and the Executive Board could consider returning to them sometime after the formal conclusion of the surveillance review. In the meantime, the Board has approved a return to the normal consultation cycles and has extended the deadline for conclusion of the biennial review of surveillance to end-January 1993.

We also need to reschedule a Board seminar on economic and monetary union in Europe. A supplement to the paper that had been circulated earlier on this topic (SM/92/129, 6/26/92) could be prepared to review recent developments affecting the Exchange Rate Mechanism (ERM) and their implications for Fund surveillance. The seminar could be held on December 11, ahead of the discussion of the world economic outlook update.

Recent developments in foreign exchange and financial markets also have highlighted the need for a better understanding of global capital flows and their implications for the working of the international monetary system. In this regard, in his address to the Annual Meetings, the U.S. Secretary of the Treasury suggested that the Group of Ten industrial countries (G-10) undertake a study of this and other related issues, in close cooperation with the Fund. The first phase of the work on the study has begun, and it has been suggested that the Fund would prepare a paper covering macroeconomic developments and its assessment of the underlying causes of the recent exchange rate tensions. Another relevant aspect of the Fund's work that is of much interest to the G-10, is the Fund's ongoing study of the growth and integration of international capital markets and the development of new financial instruments, with their systemic implications. The further reflections of the Group of Twenty-Four, as well as our own, on the impact of the macroeconomic policies of the industrial countries on the adjustment efforts of the developing countries will also be relevant in this area. I would also note that the G-10 Deputies have in hand the "Final Report of the Working Party on the Measurement of International Capital Flows" and our paper entitled "Determinants and Systemic Consequences of International Capital Flows," two examples of the Fund's recent analytical work in pertinent areas.

The annual review of international capital markets will focus on the sources of systemic risk in the ongoing adjustments in financial markets, the implications of financial integration in Europe, the recent growth of nonbank capital markets in some developing countries, and developing country access to international capital markets. The review could be considered in two Board meetings: the first, which could take place in mid-February, would discuss those issues that are related to the G-10 global capital flows study, while the second would deal with the remaining topics.

As requested by the Interim Committee in its September 1992 communiqué, the Executive Board will keep under review the matter of the role of the SDR in the provision of international liquidity. Papers dealing with these issues, including, in particular, proposals for reallocation schemes, the establishment of a "hardened SDR," and other aspects that are relevant to the question of SDR allocation, could be considered by the Executive Board after the spring ministerial meetings. Papers dealing with other issues related to the SDR, including the pattern of use and holdings of SDRs, and the role of the SDR in reserve management, could be considered by the Board in the period ahead.

3. Country-Related Activities

In the past year, 18 new members have joined the Fund, including 14 states of the former Soviet Union, thus bringing the Fund's membership to 173 at present. Tajikistan and the Federated States of Micronesia are moving to complete the membership procedures and sign the Articles of Agreement. A paper on the membership of the successor states of the Czech and Slovak Federal Republic will be prepared for circulation in due course. With regard to Yugoslavia, the Executive Board has decided to return by November 15, 1992, to the issue of the status of that country in the Fund.

In the year ahead, our tasks vis-à-vis members in the areas of surveillance, policy advice, and use of Fund resources are expected to be more demanding and heavier than ever. Following the recent decision to revert to normal consultation cycles, the Executive Board should conclude Article IV consultations for some 150-155 members in calendar year 1993. The actual number will likely be somewhat lower because of inevitable slippages and the three-month grace period. In addition, there are now 49 members with Fund-supported programs and, in the year-or-so ahead, that number may rise by some 20-25 countries. With a view to keeping the total work load of the Executive Board manageable, Directors may wish to consider further adjustments in their work procedures.

In the six months through April 1993, approximately 90 staff reports for consultations under Article IV--including 8 interim consultations under the bicyclic procedure--will be issued. Also, during the same period, 40 reviews under existing arrangements and 10 subsequent-year arrangements under the SAF/ESAF are expected to be brought to the Board agenda. In addition, area departments' projections indicate that some 35 new requests for the use of Fund resources may be brought to the Board during that period, including possible requests by some states of the former Soviet

Union. The tentative timing of the work program relating to Article IV consultations, reviews under existing SAF, ESAF, and stand-by or extended arrangements, and requests for subsequent-year arrangements under SAF and ESAF as well as a tentative schedule of Executive Board meetings have been circulated to Executive Directors.

Work on the states of the former Soviet Union has continued at an unrelenting pace, focusing on macroeconomic stabilization and comprehensive economic restructuring. In that framework we have been able to move rapidly to conclude Fund-supported programs with the Russian Federation, Latvia, Estonia, and Lithuania, and to initiate program discussions with several other states. The Board has been kept informed of these efforts and of the progress achieved in economic reform and stabilization in these countries. By the summer of 1993, we expect to have conducted the first Article IV consultations with all or nearly all the states of the former Soviet Union; most of those could probably be concluded by the Executive Board before the spring 1993 ministerial meetings. In addition, program discussions will continue with several states, and requests for Fund arrangements and reviews of programs will need to be considered by the Executive Board throughout the coming year. In parallel, extensive work is continuing in the area of technical assistance and training with all states of the former Soviet Union. In this respect, a paper on the second phase of the Joint Vienna Institute will be prepared for Board consideration in March 1993.

In its September 1992 communiqué, the Interim Committee drew particular attention to the need for monetary reform and cooperation in the states of the former Soviet Union, whether in the context of the ruble area or of the establishment of new currencies. A paper on monetary arrangements in the former Soviet Union, including the experience with currency and payments boards, could be brought for Board consideration during the first quarter of 1993, at a time when, we hope, we will have a clearer idea of the intentions of the countries concerned. In addition, a staff paper on the relevance to the countries of the former Soviet Union of the Fund's experience with regional and bilateral payments arrangements will be prepared as a basis for technical and policy improvements.

4. Policy on the Use of Fund Resources and Design of Policy Advice

I was encouraged by the broad support of Governors for the early consideration of options and operational modalities of a possible successor facility to the ESAF. The Interim and Development Committees urged that this work be completed in good time before the November 1993 expiration deadline for commitments under the ESAF. A paper reviewing the progress under ESAF arrangements will examine the experience and effectiveness of program design and implementation, including progress in achieving external viability. A second paper would examine the options and operational modalities of a successor facility. The two papers could be discussed by the Board in early 1993, thus allowing adequate time for follow-up discussions as needed to complete the Board's work on this matter well before November 1993.

As envisaged earlier, the review of the compensatory and contingency financing facility (CCFF) could take place in December. The staff paper will report on operational issues related to both the compensatory and contingency elements that have emerged during the period since the last review, and will examine the experience with contingency mechanisms under the CCFF and those established outside the CCFF. The paper will suggest consideration of a number of simplifications to both elements of the facility.

Also, we need to review the cooperative strategy in dealing with overdue obligations ahead of the spring 1993 ministerial meetings, based on the next regular six-monthly report on overdue obligations. The system of special charges on overdue obligations will be reviewed at the same time.

We should return to the matter of a gold pledge for use of ESAF Trust resources in connection with the rights approach. On June 18, 1990, the Executive Board discussed a draft decision on a gold pledge and agreed that the proposed decision would be presented to the Board after certain Executive Directors had obtained the authorization necessary for them to vote on such decision. The recently approved U.S. legislation contains such authorization for the U.S. Executive Director, and it is now timely to present for adoption the draft decision on a gold pledge.

Several papers on the design of Fund policy advice, mentioned in my statement on the work program of May 19, 1992 (EBM/92/66, 5/27/92), would need to be carried over into this work program period. A staff paper on taxation of petroleum products is in preparation, and could be considered by the Executive Board in the period ahead, together with a paper on issues in energy pricing policies. Work is in hand on three other papers in the fiscal area; a paper on the fiscal content of Fund programs in economies in transition will analyze the fiscal component of Fund-supported adjustment programs in a number of economies in transition, focusing on the progress in implementing fiscal reforms, including tax and tax administration reforms, and on the role of public enterprises; the paper on social safety nets in the adjustment process will examine the role, design, and financing of safety nets, and will review the Fund's recent experience in this area;

finally, a paper will examine the quasifiscal operations of public financial institutions and present for consideration by the Board a number of issues, including alternative approaches for integration of fiscal and quasifiscal operations in financial programming exercises. These papers could be circulated for Board consideration during the period ahead.

An issue that has recently attracted broad interest from member countries and from Executive Directors concerns the impact of large capital inflows on the conduct of economic policy, especially in the context of adjustment programs. A paper on the experience with surges in capital inflows could be issued for consideration by the Board in early January.

As agreed earlier by the Executive Board, the frequency of the reviews of the debt situation and financing needs of developing countries will be changed from a semiannual to an annual basis. Accordingly, a paper on the debt situation of developing countries will be brought for Board consideration in early September 1993; a paper for information will be circulated ahead of the spring meetings of the Interim and Development Committees.

5. Other Matters

At its spring 1993 meeting, the Development Committee will review the prospects for increasing the flows of private resources to developing countries and improving their access to international debt and equity markets, including the role of the international financial institutions in promoting and catalyzing such flows. A joint paper dealing with these issues will be prepared by the Bank and Fund staffs and will be considered by the Committee of the Whole on the Development Committee prior to the spring meetings. As usual, the Committee of the Whole will have an opportunity to comment on the draft outline of this paper.

In time for Board discussion in December, I shall circulate a memorandum with my proposals for the establishment of an evaluation office. As background documentation, there will be the report of the Task Force on the same subject.

Following the Board seminar on the cost of Fund credit, a paper on the simplification of Fund charges could be considered before the end of the year. The paper will propose a mechanism for determining a uniform rate of charge at the end of each quarter on the basis of an agreed method. A second paper, which could be considered in early 1993, would examine factors bearing on the adequacy of the Fund's precautionary balances. The annual review of burden sharing, including extended burden sharing, will be considered before the end of the financial year. The regular midyear and year-end income reviews will need to be conducted in

December 1992 and June 1993. The quarterly operational budgets and designation plans will be brought forward in the usual manner.

The annual documentation on the medium-term budgetary outlook will be discussed by the Board on January 11, 1993. Background information will include documentation on the midyear review of the budget for FY 1993. Also, a request for supplementary appropriations for FY 1993 will be presented to the Board at that time. Consideration of the Administrative and Capital Budgets for FY 1994 could take place on April 19, 1993; prior to that, the 1993 compensation review will be brought for consideration by the Executive Board.

As indicated in my statement on the work program in May 1992, we need to develop medium-term solutions to relieve the space constraints in the Fund. As a follow-up to the study on long-term office space that was discussed by the Board in July 1992, a paper reviewing the space options, including the possible acquisition of the PEPCO building, could be considered by the Board in late December 1992. A paper on the financing of capital expenditure in the Fund could be prepared in time for the discussion of the space options.

Other administrative items would also require Board attention in the next few months, including proposals for the simplification of staff benefits.

In the framework of the drafting of the Rules for the 1992 Regular Election of Executive Directors, the Executive Board has agreed to undertake a study of the size, structure, and functioning of the Executive Board, and to present its findings to the Board of Governors before the next regular election of Executive Directors. Executive Directors will wish to reflect on the content and focus of this study; perhaps this could be one of the themes for the next retreat of Executive Directors, which we should schedule for early February 1993. To this end, the staff is preparing background documentation on the evolution of the size and structure of the Executive Board, and on the procedures and methods for dealing with its tasks.

Mr. Fukui made the following statement:

It is a great honor to take the lead at this historic moment when the new Board, reflecting the increased universality of the Fund's membership, is meeting for the first time. Certainly, the Managing Director's statement on the work program for the coming period indicates that the Fund's responsibility in the international financial community will continue to increase. In particular, it is obvious that the Fund's role in tackling international systemic issues is becoming increasingly important. It is also obvious that the Board's schedule for the coming period will be dominated by the increasingly heavy burden of country-related matters. In fact, given the development of the economic reforms in the formerly centrally planned economies, discharging the Fund's responsibility through country-oriented matters is increasingly important. However, in view of the Fund's uniqueness as an institution that deals with systemic issues to promote international monetary cooperation, to facilitate the expansion and balanced growth of international trade, and to promote exchange stability, I believe it is of vital importance to have a well-balanced allocation of resources between systemic and country-related issues.

More specifically, the proposals relating to the completion of the Ninth General Review of Quotas and the Third Amendment seem reasonable, although I have the following comments.

On the review of the guidelines for the allocation of currencies under the operational budget, although the Board agreed to review this issue after the quota payments had been completed, I continue to believe that the current guidelines are reasonable and should be maintained. I am not sure that a full-scale opening up of this issue will be productive, given that a review of these guidelines would be long and painstaking.

With respect to the Tenth General Review of Quotas, I believe that there is a good case for an early consideration of this issue. Given that the Fund's liquidity is projected to deteriorate rapidly in the coming years, the replenishment of the Fund's liquidity through the early completion of the Tenth General Review of Quotas merits serious consideration.

I am reluctant to open the issue of the examination of the quota formulas in the context of the Tenth General Review of Quotas, since such a review would tend to prolong the negotiations on the new quota increase.

As to the world economic outlook and related systemic issues, as I stated earlier, the world economic outlook exercise--particularly the outlook for the industrial countries' economies--will be among the most important tasks of the Fund in the coming six months. For this reason, I welcome the proposal to reassess the current world economic outlook in December, taking into account recent developments in the world economy. However, I think that the reassessment is likely to lead to a downward revision of the world growth projection. When the world economy is experiencing this slow growth, the major responsibility of the Fund is to clearly present good analysis and creative or constructive suggestions on how to enhance growth prospects. I hope the reassessment in December will do this.

Since the importance of fiscal consolidation in the major industrial countries was stressed in the context of the previous world economic outlook exercise, and in a number of Governors' statements during the Annual Meeting, the April world economic outlook review should further pursue this issue. However, the difficulties facing the world economy are not only of a cyclical nature but are actually more complicated, and an in-depth analysis should also be conducted in April on the structural problems in the major industrial countries. Labor market rigidity, and the mechanism of wage determination, are examples.

As for the developing countries, I highly appreciate the report made in the previous world economic outlook review of the successful cases of economic adjustment in those countries. I strongly hope that the April review will provide a similar, but more in-depth, report based on comparative studies of both successful and unsuccessful cases of economic adjustment. Perhaps an in-depth study of the newly industrializing economies in Asia would provide some interesting lessons.

I support the idea of strengthening the Fund's surveillance role, particularly vis-à-vis the major industrial countries. As I have stated on other occasions, if the economic situation in the European countries had been assessed and discussed more thoroughly during the Article IV consultations with those countries, a "warning" light for the European Monetary System might have been seen earlier.

As to how to strengthen the Fund's surveillance, this chair believes it could usefully be achieved through more candid discussions during Article IV consultations with individual countries, leading to more realistic and effective remedies for the economy concerned. We also think some alterations to the methodology of the current consultation process through, for example, the introduction of new economic indicators or regional surveillance, would not be productive.

On the seminar on economic and monetary union in Europe, I endorse the Managing Director's proposal. But in view of the recent experience in European exchange markets, I would welcome a supplementary paper on this topic.

With respect to the study on the SDR, I am in broad agreement with the proposal by the Managing Director. However, since the completion of the Ninth General Review of Quotas is not far off, I believe that a good case could be made for accelerating the study of a possible new allocation of SDRs. The fact that the number of new members that have joined the Fund since the last SDR allocation has increased substantially, and that there is a growing demand for international liquidity on the part of member countries, warrants an accelerated study on this issue.

On country-related matters, first, in view of the increasing number of such items on the Board agenda, I hope that the Secretary will make the maximum effort to ensure that the items are distributed as evenly as possible throughout the coming period.

Second, despite the increasing burden of the Board schedule, I welcome the return to the normal consultation cycle. However, given the increasing number of Board hours spent on country items in recent years, I am ready, as is suggested in the Managing Director's statement, to consider further adjustments in work procedures for country-related matters, in conjunction with a review of the functioning of the Board's discussions, as proposed.

Third, this chair still strongly wishes to have a comprehensive review or evaluation of the Fund's technical assistance activities. Since a secretariat for technical assistance has been established, I hope more positive consideration will be given to this proposal.

Fourth, with respect to the Fund's activities in the states of the former Soviet Union, it is obvious that a further strengthening or intensification of technical assistance to those countries is greatly needed. From this standpoint, too, I believe that a comprehensive evaluation and review of the Fund's technical assistance activities could provide useful lessons.

Fifth, I am concerned that the lack of a feasible, operational, and sustainable agreement on monetary coordination among countries of the ruble area has become a stumbling block to the program negotiations of the Fund with some of the states of the former Soviet Union. I believe that the Fund should give more positive consideration to an early and effective solution to this situation. I appreciate the staff's preparation of a paper on monetary arrangements in the former Soviet Union, but I believe that the Fund should take a more active stance on this issue.

On policy issues with respect to the use of Fund resources, I have only a few comments. On a possible successor facility to the ESAF, this chair attaches importance to the review of past experience with the ESAF. I would prefer to have this review prior to the examination of the possible options and operational modalities of a successor facility. In any event, I support the intention to complete the Board's discussion on this matter well before November 1993.

The papers on aspects of program design listed in the Managing Director's statement are welcome. However, I would ask that the papers on these issues be presented in a more strategy-oriented way. Particularly in the present context of Fund operations, I would prefer to see these program design papers closely linked to our strategy with regard to the transition of economies. The papers need to analyze a certain aspect of the program, paying close attention to its relationship with the reform strategy for the economy as a whole. We want to discuss these papers from this standpoint.

I generally endorse the Managing Director's proposals on other matters.

Mr. Al-Jasser made the following statement:

Once again we are faced with a formidable work program for both the staff and the Board, a burden that requires us to be selective in our priorities and efficient in carrying them out. Having said that, I shall make selective comments on the proposed work program, with which I am in broad agreement.

With respect to the paper on changes in Fund decisions pursuant to the entry into force of the Third Amendment of the Articles of Agreement, it is important that the Board's consideration of this paper precedes any review of a member's overdue obligations that may involve consideration of the procedures set forth in the Third Amendment. Similarly, our discussion of the paper should take place before the review of the cooperative strategy. As for the preparatory work on the Tenth General Review of Quotas, now may not be the most productive time to pursue it, particularly in light of the work load. Therefore, it is advisable to propose to the Board of Governors that the deadline for the review be extended well beyond end-March 1993.

On the world economic outlook, I welcome the proposed early reassessment in December. However, while I appreciate this innovation, I believe that it is a practice that should be invoked only when merited by unusually strong concerns about world economic developments, such as the recent turbulence in foreign exchange markets.

As regards Fund surveillance, the biennial review will be an essential starting point for any proposals to enhance Fund surveillance. With this in mind, I encourage the staff to incorporate in its paper preliminary views on possible ways to improve surveillance, particularly with respect to the major industrial countries. Also, in light of Directors' remarks at the last informal session on exchange rate developments, it would be helpful if the staff could examine ways of strengthening the surveillance element of those sessions. In addition, I encourage the Economic Counsellor to continue to present the open and frank views that have provided an important basis to the discussion. On a related issue, I welcome the forthcoming seminar on economic and monetary union in Europe.

On country-related activities, the number of reports to be brought before the Board over the next six months is daunting. Therefore, I would again encourage the staff to make every effort to combine program papers with consultation reports. Perhaps there should be a rule that the Article IV consultation for all countries with programs should be combined with a program review, except when the program is off track. The Board schedule will nonetheless be crowded, and it will be important for sufficient notice--say, a minimum of one week--to be given to any changes in the agenda, so that our work can proceed effectively and smoothly. It is also imperative to ensure a smooth distribution of work across time.

As to the functioning of the Executive Board, I believe that the new Board should start thinking about these issues in an informal way. Consequently, I urge the Dean to initiate these informal discussions with a view to improving the efficiency and functioning of our work.

As to the discussion on Yugoslavia that is scheduled for November 13, 1992, and in view of the delicate nature of the issue, it is important that the staff paper be distributed well in advance of the meeting so as to provide sufficient time for consultations with our authorities.

On the countries of the former Soviet Union, I welcome the two systemic papers on monetary and payments arrangements. However, in each case, it is important that the Board have an opportunity to discuss them sooner rather than later. As regards the paper on monetary arrangements, I am concerned that if we discuss it only after we have a clearer idea of the intentions of the countries involved, then our ability to provide meaningful guidance to the staff and to give advice to our members will be compromised. There is a risk that we may miss the boat.

Still on the countries of the former Soviet Union, the Fund is currently providing these new members with significant and wide-ranging technical assistance. However, the Board is not yet privy to information either on the effectiveness of this technical assistance or on members' receptiveness to that assistance. Some mechanism is needed to update the Board on the Fund's work in this area and on the cost-effectiveness of its technical assistance. In this context, the Managing Director's work program in

November 1991 indicated that certain technical assistance to old Fund members may need to be delayed. I wonder to what extent the recent increase in staff positions across relevant departments has eased these constraints on the provision of technical assistance to traditional users. Indeed, it is crucial not to ignore the needs of these members, especially since priorities and needs should be measured in terms of national as well as global priorities.

On the possible successor facility to the ESAF, the proposed second paper should examine the need and merits of a successor facility prior to a consideration of possible options and operational modalities. As regards the review of the CCFF, one cannot but welcome--albeit, cautiously--a paper that will suggest possible simplifications to the facility. In addition, the review paper should examine the case for taking the external contingency mechanism out of the CCFF and integrating it into Fund arrangements.

As for other matters, I am pleased that we shall have an opportunity to discuss management's proposal for an evaluation office in December. On financial issues, I welcome the proposed paper on the adequacy of the Fund's precautionary balances. This paper and the review of burden sharing touch on closely related issues and, therefore, should be discussed jointly, or, at least, with a short interval. I note that the timing for a discussion on the medium-term budgetary outlook is somewhat later than on previous occasions. I have no difficulty with this. However, as a general practice, the outlook should be discussed sufficiently in advance of the annual budget discussion, so that the Board's views on the medium-term budgetary situation can be fully reflected in the annual presentation. Finally, I am alarmed by the inclusion of a request for supplementary appropriations for FY 1993 in the work program within a brief period of the Board's approval of a significantly increased budget for FY 1993.

Mr. Landau made the following statement:

I am in agreement with the content and scope of the work program. Before commenting on some specific points, however, I would like to make three general comments. The first is to welcome the fact that our institution has now become a truly universal one. Let me extend my warmest welcome to our new colleagues and wish them well. We are looking forward to working with them.

Second, recent events on financial and foreign exchange markets have posed a double challenge to our institution. We certainly have the analytical capability to draw the necessary lessons and formulate the appropriate policy prescriptions. But we must develop also our capacity to exert a tangible impact on the way domestic policies are formulated and implemented so as to avoid the repetition of recent turbulence as well as to contribute to solving systemic difficulties in the international monetary system. That is why strengthened surveillance, notably of the policies of industrial countries, is a matter of utmost importance. The prospects for a supplementary budget should be considered in that perspective.

Finally, the preservation and development of the resources and instruments of our institution are crucial to meeting the challenges of the years ahead. Once the Ninth Review is happily implemented, we should begin work on the Tenth General Review of Quotas as soon as possible. Extension of the deadline of March 1993 will certainly be necessary, but it should be accompanied by the determination of a precise schedule for work and future decisions. I fully support Mr. Fukui's remarks in this regard. By the same token, our institution should keep its capability to help and support its poorest members that have the courage and determination to undertake strong structural adjustment programs. That is why, in the view of this chair, work on the adoption of a successor to ESAF is of the utmost priority.

On more specific points, I am pleased to see that papers relevant to the question of an SDR allocation will be submitted for Board consideration. I also welcome the inclusion in the studies of the question of the establishment of a "hard" SDR; Mr. Peretz was certainly right to draw our attention to this issue many times. We have a strong mandate from the Interim Committee on all these issues, and for that reason, a tighter schedule, such as that incorporated in the Managing Director's statement, seems to be appropriate. Significant discussions should take place before the spring meetings, so as to help prepare the agenda for our next Interim Committee.

With respect to the world economic outlook exercise, I agree that an early reassessment is warranted: 1991 was marked by quasi-stagnation and 1992 will certainly also be disappointing. The perspectives for 1993 therefore need to be revised. We should certainly, on this occasion, draw some general lessons from recent events in financial markets. We should also reflect upon the deep causes of the current sluggishness in world economic growth and on the possible responses in terms of concerted actions by the major industrial countries.

We definitely can approve the organization, in December, of a discussion on economic and monetary union in Europe. This should, of course, be done on the basis of a supplementary paper that would both take stock of recent events and bring some useful complement and change to what seems, in our view, challengeable assumptions and simulations about the impact of convergence on European countries. We stand ready to provide the staff with detailed technical comments on all these issues.

I have not much to add to the Managing Director's comments on the issues regarding global capital flows and their implications for the functioning of the international monetary system. In this regard, I welcome the papers that the staff is preparing and look forward to our discussion in February.

I strongly support the emphasis put on the need for monetary reform and cooperation in the states of the former Soviet states. It is an essential aspect of the stabilization program. Let me, on this occasion, also congratulate the staff for the work done already with former Soviet states. Parallel to the adjustment process is the remarkable work being done in the area of technical assistance and training. My country, which has decided to contribute financially to the Joint Vienna Institute, attaches great importance to it.

On the issue of the former Soviet states, at some stage, it might be necessary both to take stock of what has been achieved and reflect upon the fundamental thrust and orientation of our strategy. We did this periodically for the countries of Eastern Europe that were engaged in the transition to a market economy. The circumstances and environment of the former Soviet states are obviously very different, and some reassessment of the pace, nature, and direction of the Fund's orientation and action may be warranted. I would welcome comments by the staff on this issue.

Regarding ESAF, I am pleased to see that the papers reviewing the progress under ESAF arrangements and examining the options and operational modalities of a successor facility will be issued soon. In this regard, I tend to think that to "complete in good time"--to quote from the last Interim Committee communiqué--the work that has been confided to us by the Interim Committee, we need to consider these papers as soon as possible. My authorities attach great importance to the putting in place of a successor concessional mechanism for the benefit of the poorest countries at the time of the expiration of the existing ESAF.

Concerning more precisely the matter of the "gold pledge," I agree that the time has come to go forward on this matter. I would also argue, however, that it should be done in conjunction with our overall assessment of the Fund's financial position and precautionary balances with a view to determining whether the Fund, as such, could not now contribute to the functioning and financing of the concessional facility that, we hope, will succeed ESAF.

With respect to the Managing Director's proposal regarding the question of the size, structure, and functioning of the Executive Board, while it is clear that we shall have to deal forcefully with this issue at the appropriate time, I think we should try to gain some experience with the functioning of the new Board before tackling fundamental issues of its structure and size. After all, we are in a new environment, we have exciting challenges to face: let us give ourselves some time to take stock of what is going on and what we can achieve. I would not mind, therefore, postponing a retreat on this item by six to nine months.

Mr. Posthumus made the following statement:

I welcome our new colleagues in the Board, and I apologize for the treatment we will give them today, but at least they will not have to complain about a lack of work. My three priorities for the Fund's work in the near future are to restore our surveillance function, to better focus our financing activities, and to strengthen the role of the Executive Board. While I have no specific objections to specific parts of the work program, except as in the following remarks, I would stress the need for clear priorities in our program.

Surveillance is at the heart of our task of overseeing the international monetary system in order to ensure its effective operation. Surveillance, in addition, is a global responsibility of this now global institution, not particularly vis-à-vis the major industrial countries, as the Managing Director's work program indicates, but including the major industrial countries. Different treatment is not our way. In this function, as in others, the Fund should guard as much as possible its independent position. I am looking forward to the discussions we will have on surveillance at the beginning of next year, but I would stress at this time that what we need, first of all, is the restoration of regular surveillance itself, here in the Board.

Surveillance and conditionality are two sides of the same coin; they are the activities that define the monetary character of the Fund. We know what surveillance is; it does not have to be reinvented.

I have formulated my first priority as "restoring our surveillance function" because this function has suffered in the recent past. The reason is twofold: the very large number of Fund arrangements and the tasks that the Fund has taken on in Eastern Europe and the former Soviet Union together require a large number of staff, not only in the area departments, but in the other departments as well, a great deal of time, and a great deal of attention. While I understand the proposal of the Group of Twenty-Four developing countries in the letter annexed to the statement on the work program, I must also point out, in all fairness, that the Fund cannot continue to expand the number of programs without placing less emphasis on other activities, or being forced to do so. A large part of the staff is working on programs, and management and the Board become more and more preoccupied with programs and their problems, leaving less time and attention for surveillance and for policy discussions.

This brings me to my second priority--better focus on our financing activities. One third of the countries having stand-by arrangements or extended arrangements have had 11 or more programs, and in a number of cases, balance of payments need cannot be established. We must avoid embarking on a program because the creditors of a country want a program to protect their outstanding credit. The continuous growth of the number of programs, together with liberal access limits, will, at some point in the future, have consequences for the liquidity position of the institution. This is an issue that requires constant attention. Conditionality is not only effective with financial support, and we must not convey the message that surveillance cannot be effective without financial support.

The restoration of surveillance and better focusing of our financing activities will enable us gradually to spend more time on some fundamental issues: global capital flows and the working of the international monetary system, for example. And also--although I should probably have mentioned this under surveillance--the working of, and experience with, the exchange rate mechanism in Europe, the most ambitious effort to stabilize exchange rates in a large area in many years. We have never even discussed it, although the staff has prepared a good paper. Furthermore, there is the monetary and exchange rate policy advice of the Fund to its members. We have a Monetary and Exchange Affairs Department, and I believe it was reconstituted, partly at least, to help develop further our policy advice in this field.

At the Board seminar on the cost of Fund credit, Directors also discussed my suggestions to consider the financial structure of the Fund, and there was considerable interest in this issue. The work program does not mention it, but I propose that this subject remain on the active agenda.

My third priority is to strengthen the role of the Board, in particular by improving the management of our very large agenda. I will not go into details. I am on record for trying to improve the Board's procedures. But I would suggest that we set up an ad hoc Board committee to try once again to improve our work procedures. Much too much time is spent on speeches that repeat staff reports and appraisals; this misuse of time can be corrected without loss of attention to agenda items and to the countries behind the reports.

Mr. Fridriksson made the following statement:

Like the speakers before me, I would like to welcome the new members to the Board.

The program that the Managing Director has invited us to comment on today is an ambitious one. In general, I support the work program as presented, and I shall confine my remarks to commenting on a few specific issues.

First of all, my authorities are pleased to note the approaching return to normal consultation frequency. They view the surveillance function as being at the core of the activities of the Fund. At the same time, it is obvious that the work load of the staff posed by the consultation activity will be heavy. With that in mind, my authorities believe it necessary to consider possible ways of streamlining mission-related work, but without diminishing the quality of the surveillance activity. This may sound contradictory, but it need not be. The issue might be looked at in connection with the biennial surveillance review scheduled for January. The work load of the Board will also rise significantly, as a result of which we may need to consider possible changes in work procedures, particularly if we do not adhere to the voluntary rules that we have agreed among ourselves. My authorities wish to emphasize, however, that Board consideration is an important part of the surveillance process.

My authorities support the Managing Director's proposal to consider the systemic implications of the unrest in the currency markets--for example, in connection with the mini-world economic outlook review--as well as how the surveillance activities of the Fund can be strengthened. This work should be accorded high priority; the proposed G-10 study could provide a useful input. As for the strengthening of the surveillance role in general, I do not have any particular suggestions to offer at this time, except to say that we need to look for new ways for the Fund to contribute to enhanced policy coordination among countries. For this effort, the world economic outlook exercise is probably the most feasible vehicle. Flexibility in the timing of these exercises will be important. Further emphasis might be placed on assessing the interlinkage of economic policy actions or lack of action. Through this effort, the Fund might lay a better foundation for improved cooperation among member countries.

In light of recent events in the markets, the prospects for continued low growth, and the unusually large uncertainties in the latest world economic outlook projections, my authorities look forward to the reassessment planned for December. This, in their view, is an appropriate and welcome response in a situation marked by uncertainty. I should also say that we welcome the suggestion in the program to focus on the broader causes of the recent turbulence in financial markets and the policy adjustments required to reduce the probability of their recurrence.

In this connection, I should also state that I look forward to the seminar on economic and monetary union in Europe, and I would expect to see a supplement to the main paper along the lines suggested in the Managing Director's statement.

I fully endorse the suggestion to consider monetary arrangements in the states of the former Soviet Union and the Baltic countries in the early part of next year. In this connection, we also need to focus on the great urgency of establishing normal trade practices and a functioning settlements system between the economies in transition in Central and Eastern Europe. This is of fundamental importance if these countries are to succeed in their reform efforts. I therefore welcome the prospect of a paper on regional and bilateral payments arrangements. It should be given high priority, and both items should be placed on the Board agenda as soon as possible.

On the ESAF, I agree with Mr. Fukui that we should not proceed too far with the work on a successor facility until we have assessed the experience and effectiveness of ESAF program design and implementation, and until the possibilities of financing it have been assessed.

I welcome the prospect of a paper on the fiscal content of Fund programs in economies in transition as well as on social safety nets in the adjustment process, which may be of unusual importance in the economies in transition.

In view of the heavy work program, my authorities think that consideration of the taxation of petroleum products could wait beyond the horizon of the proposed work program.

My authorities are indeed pleased that the Ninth Quota Increase is finally about to become effective. It comes at a time of rapidly increasing demands for Fund assistance, both financial and technical.

With that in mind, my authorities think that the preparatory work on the Tenth General Review of Quotas should be given priority. In our recent discussion on access limits, some skepticism was in evidence that the next quota review could be agreed in the foreseeable future or even that there would be a Tenth Quota Review. In this respect, I wish to emphasize that the timing and magnitude of the Tenth Quota Review will be affected by how well the Fund performs its functions in general, and by how it meets the present challenges in particular.

On the size, structure, and functioning of the Executive Board, I support the suggestion that this could be a theme for a preliminary discussion at the retreat scheduled for early February.

We have often emphasized the need for, and the importance of, technical assistance to the economies in transition. As suggested by Mr. Fukui, perhaps it would be worthwhile to try to take stock of the effectiveness of technical assistance--including that of the resident representatives--some time during the coming year and to look, in particular, for ways to further improve it, and consider whether better coordination among institutions can be achieved. Moreover, we might wish to look at how we can best ensure adequate follow-up to technical assistance missions.

Mr. Mirakhor made the following statement:

I wish to welcome all our new colleagues and look forward to their contribution to the work of the Executive Board.

We are in agreement with the thrust of the proposed work program and wish to comment on some of its components.

On the completion of the Ninth General Review of Quotas, entry into force of the Third Amendment, and related matters, we look forward to a speedy completion of all technical matters and are prepared to consider a reasonable extension of the period of consent beyond November 30, 1992, on the basis of a paper that will review all relevant factors, especially as regards countries with protracted overdue financial obligations that are cooperating with the Fund. Similarly, we are prepared to consider the preparatory work on the Tenth General Review of Quotas. Indeed, like Mr. Fukui, Mr. Landau, and Mr. Fridriksson, we believe that the work on the Tenth General Review should proceed expeditiously. As our recent experience shows, the Fund would have been caught off guard by the rapid changes in Eastern Europe and the former U.S.S.R., had it not been prepared by its work on the Ninth General Review of Quotas to meet the challenges posed by these developments.

With respect to the world economic outlook, the strengthening of surveillance, international policy coordination, and SDR issues, we concur with the Managing Director's view that recently heightened concerns and uncertainties surrounding world economic developments "call for an even closer monitoring of economic and financial developments and for effective actions to strengthen international policy coordination." In this regard, we welcome the preparation of an early reassessment of the world economic outlook, to be discussed in the Board in December, as well as the consideration in a Board seminar of issues related to economic and monetary union in Europe. In view of the vital importance of freer markets and a stable trading environment to the revival of world economic growth, we also agree that we should continue to keep a close watch on developments in the Uruguay Round negotiations.

On surveillance, we believe that concrete and effective ways should be found to strengthen the Fund's surveillance role. This should, in our view, extend beyond the coverage and analysis contained in the world economic outlook exercise and Article IV consultation reports. We feel that all concerned parties may now be prepared for this reinforcement, and we are confident that the Managing Director will seize the opportunity offered by the present state of the world economy and financial markets to press home the need for strengthened surveillance. In this regard, there is merit in the suggestion that the Board's informal reviews of exchange market developments be extended to cover a broader, more comprehensive set of financial and economic indicators. Furthermore, in addition to seeking studies from the Group of Twenty-Four developing countries, we would like to suggest that a seminar be organized on this issue that would be open to the views of academics and experts in the financial markets in order to address ways and means by which the Fund's surveillance, particularly of the industrial countries, can be strengthened.

The study under way at the request of U.S. Treasury Secretary Brady, as well as the forthcoming annual review of international capital markets, is most welcome. We believe that the annual review of international capital markets should be more broad based and have a stronger operational content so that it can become an instrument of guidance to member countries in need of such advice. Fund missions should be prepared, in relevant cases, to provide appropriate guidance to countries in the process of seeking access to financial markets.

Regarding the role of the SDR in providing international liquidity, we attach high priority to this issue and urge that work on all aspects that are relevant to the question of SDR allocation be advanced to provide a state of preparedness, in view of the pressures on international liquidity.

On country-related activities, like others, we are impressed by the number of forthcoming Article IV consultations, new arrangements and reviews, together with activities under the SAF/ESAF, and recognize that this heavy work load will call for adjustments in the conduct of the Board's work procedures. In this connection, we recall certain voluntary understandings on the length of Directors' interventions that were agreed to at the last retreat of Executive Directors on an experimental basis. We look forward to a review of the results of that experiment, and we believe considerable efficiency gains in the Board's work procedures could accrue if these voluntary strictures were adhered to.

In the context of country-related activities, we strongly recommend that Article IV consultation reports should address regional developments and their implications for specific countries, not only in cases where regional arrangements exist but also in other cases where policy advice to a specific country has regional implications.

With respect to the policy on the use of Fund resources and design of policy advice, we particularly welcome the Managing Director's proposal regarding the early consideration of papers that will review the progress and effectiveness of programs under ESAF arrangements and examine the options and operational modalities of a possible successor facility to the ESAF. The ESAF has played an invaluable role in providing concessional resources for the implementation of structural adjustment programs in low-income countries. It is important that the Board's full examination of the options available for the subsequent period be completed well before the November 1993 expiration deadline for commitments under the ESAF so as to allow sufficient time for any follow-up discussions that may be required. We also welcome the forthcoming review of the compensatory and contingency financing facility.

On the design of Fund policy advice, we understand the reasons why several papers have been carried over into this work program period. We hope that they will not be delayed further. We also look forward to the paper on social safety nets in the adjustment process and are equally interested in the paper on the experience with surges in capital inflows.

Mr. Goos said that he too wished to join previous speakers in welcoming the new members of the Board. Since he would be leaving the Board in a few weeks, he would have preferred his successor to have had the opportunity to participate in the discussion that day. It was awkward to help approve what was likely to be an extremely heavy work program and then retreat, so to speak, behind the--it was to be hoped less demanding--defense line at the Bundesbank.

With that in mind, he wished to join, first of all, those who had recommended greater prioritization of the work program, Mr. Goos continued. Given that the proposed country-related activities included some 180 country items to be taken up by the Board in the six months ahead, greater selectivity would be advisable in the scheduling of policy issues. Otherwise, there was a clear risk that the Board might be forced to reconsider its intention of returning to the normal 12-month consultation cycle. That would, of course, be most unfortunate because it would impinge on a core responsibility of the Fund, as Mr. Posthumus had stressed.

In that context, Mr. Goos said that he explicitly welcomed the intention of the Managing Director to further strengthen surveillance over industrial countries, including the proposed mini-world economic outlook discussion in December. But he would have wished the proposals in that respect to have been at least as specific and detailed as the ones concerning program-related activities.

More generally, Mr. Goos reiterated his call to avoid an undue bunching of critical policy issues on the Board agenda, or at least to issue the relevant papers sufficiently in advance of the Board meetings to allow their careful examination by Executive Directors and capitals. In that context, his concern had been reinforced by the latest tentative schedule, which revealed considerable bunching of agenda items in the weeks ahead while at the same time the agenda since the Annual Meeting had been very light. He wondered why it was not possible to spread the work load more evenly over time.

Returning briefly to greater prioritization and selectivity, Mr. Goos considered that it would suffice to issue the papers mentioned in the fifth paragraph of Section 4 of the statement on the work program as information papers only. With the possible exception of the study on the fiscal content of Fund programs in economies in transition, those papers--on the taxation of petroleum products, issues in energy pricing policies, and social safety nets in the adjustment process--seemed to bear little direct relevance to the Fund's mandate. That was particularly true of the third paper; the design of social safety nets should be left to other institutions.

Also, the papers on the pattern of use and holdings of SDRs and the role of SDRs in reserve management could be issued to the Board for information only, Mr. Goos remarked. He would attach more importance to the proposed review of the Fund's SDR holdings; presumably, that review would address the issue of how to rechannel to the participants in the SDR Account the SDRs that were going to be paid into the Fund in the context of the quota increase. At any rate, the Fund must not become a trap for the existing SDRs.

While welcoming the attention to be given to capital market issues and the willingness of Fund management and staff to participate in the G-10 study on global capital flows and their implications for the working of the international monetary system, Mr. Goos asked for somewhat more elaboration of the details of the work program in that area. It would be recalled that the preparation and Board discussion of such a paper after the 1992 Annual Meeting had been agreed by the Board at the discussion of the previous work program. Therefore, he hoped that the issue would be placed in the program under discussion. Incidentally, the issues relating to the Fund's lending activities, including the proposed review of the experience with the ESAF, should be reviewed prior to any discussion of a possible successor facility to the ESAF. He would welcome management's response on that point.

Mr. Prader made the following statement:

> We broadly agree with the Managing Director's outline of the Fund's work priorities for the period until the spring meeting of the Interim Committee. On the priorities and on the issues suggested for discussion, this chair would first strongly advocate a leadership role for the Fund in matters mandated to it by the Articles of Agreement, and all the more so in a situation where the major industrial countries have shown themselves unable to agree on the nature of their economic problems, let alone on recommendations for responding to them, and during a period when they are mostly looking inward. Discussing the Fund's role, as suggested by Mr. Goos during the Board's last debate on the work program, would help to focus members' attention on the need for Fund leadership in the international monetary system and the coordination of financial policies, and clarify its future role.
>
> Now that the majority voting requirement is about to be satisfied, it is high time to complete the other work required to bring into effect the Ninth General Review of Quotas and the proposed Third Amendment. After finishing this work, we should immediately turn to preparations for the Tenth Quota Review. The history of delays associated with the Ninth Quota Review must not be our guide as we conduct the deliberations on the next quota review.
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> As for the world economic outlook, our chair would endorse an early reassessment and update along the lines suggested in the Managing Director's statement. On surveillance, since our chair was one of those insisting on a return to the normal consultation cycle as soon as possible, we welcome the announcement that this is finally going to happen. We also share the view that the efficacy of the Fund's policy advice to the major industrial countries needs to be improved. There is an evident negative correlation between the economic size of Fund members and the effect of the Fund's advice: the Fund's advice is more likely to be followed--and also supported--by smaller countries than by larger ones. Although the Board might come up with some imaginative ideas between now and the biennial review of surveillance at the end of January 1993, it is not unreasonable to harbor doubts that the basic problem--the unwillingness of the larger countries

to implement the Fund's recommendations--can actually be resolved through deliberations in this forum.

We wonder why the regular review of the Fund's policies for Eastern Europe and the states of the former Soviet Union does not appear on the agenda of the work program. Could this omission reflect a feeling that these reviews have not served their purpose, or that the situation in this region is no longer really serious? Complacency on the part of the international community would certainly be a grave mistake. We are well aware of the drawbacks of such review discussions--in particular, their tendency to degenerate into general expositions of the ideological orthodoxy to which each discussant subscribes. Because of these drawbacks, more specifically targeted discussions like those proposed on such topics as the fiscal content of Fund programs in transition economies, or social safety nets in the adjustment process, sometimes turn out to be more useful; but we would nonetheless strongly insist that only a regional perspective transcending the limited viewpoint offered by individual program reviews or country consultations can enable us to see and respond to the underlying problems. These broader discussions might also be a means of discovering which issues are the most relevant and urgent for the economies in transition. For this reason, we would rank the papers on monetary arrangements in the states of the former Soviet Union and on payments arrangements high on the agenda.

In light of recent developments in the exchange market and in Europe, it also seems desirable for the Board to hold its long-announced seminar on economic and monetary union in Europe and explore for itself the implications for the Fund's policies, instead of leaving the exchange of views on the seminar paper to the media. It goes without saying that this chair strongly supports any initiative and analysis the Fund might supply in the area of international capital flows and markets. The Fund has a mandate in this field, and must avoid losing it. The proposed G-10 study of global capital flows and their implications for the working of the international monetary system is, of course, very welcome. Our only caveat is connected with the well-known constraints of studies conducted by interested parties that tend to repeat established positions without producing new insights. It might be more useful to ask economists who are unfettered by G-10 or any other country group affiliations for their disinterested views on the lessons of the recent exchange market turmoil.

On the SDR, we can accept the proposed timetable for discussing the various issues, although we would have preferred to see the role of the SDR discussed before the spring Interim Committee meeting rather than afterwards.

In the area of country-related activities, our chair's interest in the paper on the membership of the successor states of the Czech and Slovak Federal Republic is self-evident. We also continue to support the pace and scope of Fund involvement in the states of the former Soviet Union, and the focus on macroeconomic stabilization and economic restructuring. The Fund's combination of program work, technical assistance, and training is adequate. My Austrian authorities especially appreciate the vigor with which the Fund is pushing for Phase II of the Joint Vienna Institute and hope that timely Board consideration of the related issues will reward the efforts of the Fund staff in this important project.

Mr. Ismael said that he wished first to join previous speakers in welcoming the new members of the Board.

His chair broadly agreed with the proposed work program, Mr. Ismael commented, and he would thus limit himself to a few remarks. He was glad to note that the Ninth Quota Review and the Third Amendment were at last in their final stages, Mr. Ismael continued. Nonetheless, he particularly welcomed the proposal for a staff paper reviewing the relevant factors relating to the extension of the period of consent of the Ninth Quota Review beyond the November 30, 1992 deadline. Countries with protracted arrears but that were judged to be cooperating with the Fund deserved sympathetic treatment. He also urged the Fund to begin without delay work on the Tenth Review, including a review of quota formulas.

He welcomed the proposed early reassessment of the world economic outlook, Mr. Ismael remarked. Perhaps the study on macroeconomic developments and the underlying causes of the recent exchange rate tensions could even be folded into that review--and even be accompanied by a brief review of the effects on developing countries of policies in industrial countries.

He agreed with early consideration of ways to strengthen the Fund's surveillance, Mr. Ismael commented. An improvement in the Fund's muscle in that area was necessary for its credibility as overseer of the international monetary system.

He supported the study on the role of the SDR, Mr. Ismael stated. If the Fund--and its members--were not willing to abide by the Articles of Agreement in making the SDR the principal reserve asset of the international monetary system, perhaps the review would conclude that a fourth amendment of the Articles was needed to put the issue to rest.

A number of interesting and useful studies had been proposed, among which he would like to single out a possible successor to ESAF, the impact of large capital flows on the conduct of economic policy, and energy pricing and taxation policies, Mr. Ismael observed.

With the heavy prospective work load outlined in the Managing Director's statement, further improvements in the Board's work procedures should strongly be taken into consideration, Mr. Ismael considered, beginning with the exercise of self-restraint by Directors.

Mr. Che said that he wished to join the previous speakers in welcoming their new colleagues to the Board. As usual, he found the Managing Director's statement on the proposed work program very helpful, and his chair had no difficulty in endorsing it. However, he wished to emphasize some points.

The Board's work load resulting from the proposed work program was admittedly very heavy, apparently in part owing to the expanded Fund membership, Mr. Che observed. Inevitably, that increased the number of country-related discussions; more time was also needed when a new member country was involved. Out of a total of 175 country-related items to be submitted to the Board in the six months through April 1993, 85 were reviews under existing arrangements and new requests for use of Fund resources. As a review of an existing arrangement covered all the important sectors in that country, what needed to be analyzed in a consultation report was also included in the review report. Taking that into account, he wondered whether it was possible for the Fund to streamline the procedures for conducting the consultation with a program country during its program period. He wished that some study could be made of the issue, so that, he hoped, there could be some improvement.

On the completion of the Ninth General Review of Quotas and related matters, his chair supported the Managing Director's proposal that the Fund should accommodate the countries with protracted overdue financial obligations if they still wished to consent to the increase in their quotas and were indeed cooperating with the Fund, Mr. Che stated. For the preparatory work on the Tenth General Review of Quotas, he urged, at the earliest opportunity, a Board discussion of the paper examining the working of the quota formulas.

As to the reviews of Fund liquidity, Mr. Che observed that his chair favored reducing the frequency from a semiannual to an annual basis unless there was an unexpected sharp change in the Fund's liquidity.

Regarding the study of the size, structure, and functioning of the Executive Board, Mr. Che said that he supported Mr. Landau's proposal for such a review at a later date, namely, in at least six to nine months' time, when it would be easier to evaluate and assess how the new Board was performing.

Mr. Filosa made the following statement:

> I want to thank the Managing Director for the comprehensive program illustrated in his statement. I concur with the priorities identified and, in particular, with the need to work on the

many systemic issues that the Fund will confront in the period ahead after having become a truly global institution. My broad agreement on the program will enable me to limit my remarks to those issues that perhaps require some clarification or that are not included in the program.

Concerning the completion of the Ninth Review of Quotas, the entry into force of the Third Amendment, and related matters, I can certainly agree with the many proposals by the Managing Director, possibly with one exception, which relates to the work on the Tenth General Review of Quotas. While I can agree to proceed with the paper examining the working of the quota formulas for the Tenth Review, I wonder whether work on this matter is really necessary. Given the delay in the coming into effect of the Ninth Review, we might conclude the Tenth Review by the end of March 1993 by deciding that there is no immediate need to increase quotas beyond the Ninth Review levels. At the same time, we should indicate an appropriate time to start work on the Eleventh General Review of Quotas, which would obviously include consideration of the formulas. I would very much appreciate the views of other members of the Board as well as those of management on this point.

Concerning Section 2 of the work program, I certainly support the idea of an early reassessment of the world economic outlook and the need to focus on the causes of the recent turbulence in the financial markets. However, I wonder why the Managing Director has indicated the need to focus on the "broader" causes of the recent events in the international financial markets. I would prefer that we focus on all causes: broad, and specific, of both long-term and short-term origin, including the resistance to changing the policy mix in the major countries that have allowed speculative attacks to develop and spread in Europe. In sum, I would like to have a discussion of the necessary policy flexibility that is required to avoid or significantly reduce the probability of future exchange rate instability. To this effect, I certainly agree on the need to revisit the issues concerning the U.S. budget deficit but also monetary policies in the United States and in Europe. This work could deepen our analysis of the causes of the recent exchange rate tension that the Fund should prepare in the context of the G-10 work on global capital flows that has been suggested by the U.S. Secretary of the Treasury. An in-depth analysis of recent turbulence in the financial markets could also be particularly useful in the work on the biannual surveillance review and in discussing options available to strengthen multilateral surveillance.

I also support Mr. Goos's request to include in our work program a comprehensive assessment of the role of the Fund in the new economic context that has emerged in the wake of political developments in Eastern and Central Europe, in view of the increasing number of countries seeking financial support from the Fund. I believe that such an assessment is a necessary complement to the review of surveillance.

Concerning our discussion on exchange rate developments, I note that despite the sudden emergence of tension in recent months in the exchange rate markets, it is still proposed to conduct the periodic informal Board sessions on exchange market developments every two months. I wonder whether it would not be more appropriate to have a more frequent review of exchange market developments, say, every month. I also hope, as I have said on other occasions, that during our future discussions on exchange rate developments, we should be able to comment on the main trends in capital flows, which in previous meetings have been systematically and conspicuously ignored. I strongly believe that in order to make our discussions more productive and better informed, we need to enlarge the set of indicators prepared for the discussion to include information on capital movements. Again, comments from the management would be appreciated.

Concerning the seminar on European monetary union, I support the comments made by Mr. Landau.

With respect to the issue of the role of the SDR in the provision of international liquidity, I can certainly agree with the proposal in the Managing Director's statement. Like Mr. Prader, however, I wonder whether it is necessary to consider that issue only after the spring ministerial meetings rather than before, which is my preference.

On country-related issues, I very much welcome the proposed discussion on the monetary arrangement of the states of the former Soviet Union and on the experience with regional and bilateral payments arrangements. Concerning the first, I can certainly appreciate having a Board meeting when we will have "a clearer idea of the intentions of the countries concerned." Still, I am of the view that we could discuss the issue even before the country concerned has reached an agreement on such an important issue, for the following reasons: first, the states of the former Soviet Union may not be able to reach an agreement soon; and second, they may agree on something that does not include the minimum necessary conditions for effective monetary arrangements and coordination in the states of the former Soviet Union. Like Mr. Al-Jasser, I concur with the need to examine the issue sooner rather than later.

On the issue of the use of Fund resources and the design of policy advice, I welcome the intention to conduct a comprehensive review and simplification of the CCFF. I also welcome the three papers that are being prepared in the fiscal area, analyzing the fiscal component of Fund-supported adjustment in economies in transition. I wonder, however, why no paper is being prepared to review the monetary components of Fund-supported adjustment programs and, in particular, to review whether technical assistance in the monetary field, including banking supervision, is being implemented in a timely manner. In my view, financial reforms deserve the same degree of attention as fiscal reforms do. I am concerned that the ongoing process of financial liberalization may be extremely dangerous for Fund-supported programs if we lose sight of the progress made by the countries concerned in giving effect to the recommendations of the technical assistance teams and if a systematic discussion of our strategy in this crucial field does not take place.

Another area that I believe we need to discuss and that is not included in the work program is the issue of bad loans in the banking sector in Eastern and Central Europe. I have the impression that in each country ad hoc solutions are being adopted, and I am not sure that these approaches are effective enough. This requires systematic examination, and I am afraid that the Fund and the World Bank are lagging behind in meeting the need to offer advice to the countries concerned on an issue that is crucial to the success of their reforms.

Mr. Kaeser commented that as a newcomer, he would refrain from making long comments on the work program, and would limit himself to one short remark. He had been somewhat surprised to see that the size of the Executive Board could become one of the topics for the forthcoming retreat of Executive Directors in early February 1993. In the view of his constituency, the recent enlargement of the Board reflected a large increase in the membership of the Fund, which had become a universal institution. As Mr. Landau had said, it would be better to wait and see how the Board dealt with its tasks under the new circumstances before it addressed the issue of its size, structure, and functioning. The review could take place at the beginning of 1994. There would be enough other important topics for the next retreat, especially if the Board was to discuss, as it would wish, the problem of strengthening the surveillance of the Fund over the industrial countries.

Mr. Santos made the following statement:

I welcome the Managing Director's statement on the proposed work program for the period up to the spring of 1993. I fully share the general considerations that have guided the organization of the work program, as well as the priorities of the program itself. I recognize, however, that with the decision to revert to normal consultation cycles, and with the possibility of an unprecedented increase in the number of programs to be brought to the Board for discussion in the coming months, further adjustments to our program appear unavoidable. Therefore, we agree that we will need to define our priorities and adhere, to the extent possible, to streamlined Board work procedures with respect to the lead speakers and the use of shorter versions of Directors' statements. This is even more important now that the number of chairs has increased.

I have no difficulties with the timetable for the consideration of issues connected with the coming into effect of the increase in quotas under the Ninth Review. The Board has recently made some progress in this regard in agreeing on the new access policy and limits, as well as on the renewal of the General Arrangements to Borrow. With respect to the preparatory work on the Tenth General Review of Quotas, I look forward to the paper examining the working of the quota formulas, which should address the concerns expressed on several occasions by the Group of Twenty-Four developing countries with respect to the quota calculation methodology. In view of the long delay in the coming into effect of the Ninth Review, and the projected growing demands on Fund resources, we concur with the view that we should proceed rapidly in order to make substantial progress before the end-March 1993 deadline.

I support the need for a reassessment of the world economic outlook in the light of recent developments, and I look forward to the staff background papers and analysis to help in our discussions. The letter sent to the Managing Director by the Group of Twenty-Four Chairman underscores the priority that developing countries attach to a study on surveillance over the macroeconomic policies of the major industrial countries and their effects on the adjustment efforts of developing countries. The recent turbulence in the currency and financial markets being symptoms of the uncertainties facing the world economy, we concur with the view that the staff should broaden its analysis and proceed to identify the fundamental forces underlying the crisis, as proposed by the Chairman of the Group of Twenty-Four.

I have no difficulty with the proposed timing of the seminar on economic and monetary union in Europe, and I take note of the intention to issue periodic information on the progress of the Uruguay Round negotiations.

With respect to the annual review of international capital markets, I note that the issues envisaged for discussion would be extensively addressed in this work program. In view of the interlinkages between the two papers and previous papers, we wonder why two Board discussions are being scheduled, and what is the time frame between the two meetings.

I support the proposal to continue to keep the matter of the role of SDRs under review in the period ahead.

As to country-related activities, it is clear that the unprecedented number of country matters to be brought to the Board's agenda will indeed result in an extremely heavy work load over the next few months. In this regard, we keep an open mind on the possibility of rearranging our work program in order to accommodate unexpected requests.

Regarding policies on the use of Fund resources and the design of Fund policy advice, I welcome the Managing Director's intention to follow up quickly on the call made by the Interim and Development Committees to review the effectiveness of ESAF programs and to examine the options and modalities of a successor facility. My constituency attaches great importance to this work, and I fully support the Managing Director's intention to complete it well before the expiration of the ESAF in November 1993. I have no difficulty with the proposed paper reviewing ESAF arrangements and a subsequent policy paper on a successor facility, and I fully support the recommendation that all the necessary steps should be completed in time for the facility to be operational by November 1993.

I have no difficulty with the proposed review of the CCFF and the cooperative strategy in dealing with overdue obligations, as well as the system of special charges. We agreed previously on the frequency of review of the debt strategy, as long as the Board continues to be informed of any new developments in this area.

I note that several studies on the design of Fund policy advice are scheduled for presentation during this period. While we do not deny their importance, we would, however, suggest attaching greater priority to those papers that could have wider applicability and an immediate impact on program design.

On other matters, I have no quarrel with the proposed date for our consideration of the simplification of Fund charges and other issues relating to the Fund's financial position, or with the proposed date for the discussion of the budgetary outlook in the medium term.

A number of administrative matters that are important to the staff remain to be discussed, and we hope that these can be accommodated within a reasonable time frame.

Mr. Kafka said that he wished, first of all, to join his colleagues in extending a word of welcome to the new Board members. Mr. Kafka then made the following statement:

As usual, the Managing Director has presented us with a carefully crafted work program. We warmly endorse it, particularly its emphasis on the problems of the international monetary system. Also, we agree with the ideas put forward so far by colleagues. Our only concern is the wide scope of the program, even though that scope reflects the tasks that the international financial community would like to entrust to this institution. But our concern means that we must become more decisive in adapting our approach to the work pressure which the program reflects.

There are, first of all, a number of logistic changes that I would consider almost mandatory under present circumstances. The main change should probably be that we should take the scheduling of meetings much more seriously than we have done so far. That means not just avoiding changes in scheduling, if at all possible; it also means attempting an even flow of our work load. Whenever we see a Board-free day, we should panic.

There are some other matters of an administrative rather than logistic nature which it would nevertheless be worth mentioning. We undoubtedly made progress in shortening staff reports, and we are sure that the staff will try to carry this tendency forward. I would also like to remind us of two suggestions that have been made and so far not followed: Mr. Al-Jasser's suggestion that all our papers should begin with an executive summary, which is not the same thing, of course, as a staff appraisal, and Mr. Peretz's suggestion that it would be helpful if staff papers were divided into numbered paragraphs.

Also, among administrative problems, the work program reminds us of our obligation to delve into the problems of Executive Board reform and the role of the Fund, which is not something that we can conduct in isolation from our sister institution. We should perhaps also look into our internal work methods. An institution like ours may engage in too much internal consultation--we should remember Professor Parkinson's warning. It was also striking that during the last few days, when we were taking leave of a number of retiring Executive Directors, there was much mention of concern about the situation of our staff. These are, of course, merely impressions. But they suggest to us that the new Board should, from the outset, start thinking about these logistic and other administrative problems. There is enough experience assembled among Directors to make such an exercise useful. Finally, on this part of our problem, we welcome warmly, after many years, the establishment of an evaluation office and of the Administrative Tribunal.

Turning now to substance, I am glad that the work program emphasizes an early reassessment of the world economic outlook.

The papers before, and the discussions of, our Board of Governors this year on this subject, despite the care and competence with which they have been prepared, have been somewhat disappointing. This is partly due to our forecasting assumptions that all Fund-supported programs are carried out successfully. Partly, perhaps, it is also due to the reluctance, which I am sure we all feel, to admit that things are bad when it would be much more pleasant to be able to say that they are good. This is obviously not an easy problem to solve; our forecasts may influence economic developments in the world, and neither optimism nor pessimism are appropriate, while correct forecasts are almost impossible. I am not sure that the preparation of alternative scenarios is an adequate answer to these problems. Thus, there has recently been some discussion by serious economists of the danger of a slump or at least of a relapse in industrial countries into a lower growth rate than during the last quarter. I am not sure that our latest world economic outlook discussion did not still underrate these problems.

Secretary Brady has suggested an examination in the context of the Group of Ten of the implications of global capital flows on the working of the international monetary system. This matter is of great relevance to the Fund's work, and we strongly support Secretary Brady's initiative as well as all the other suggestions in the work program that are relevant to the functioning of the international monetary system. Certainly, the problems of financial turbulence require our study. So does the usefulness of the SDR. An essential part of the good functioning of the international monetary system is the Fund's exercise of--to quote the Articles of Agreement--'firm' surveillance of the policies of member countries. Obviously, the problem here continues to be, as we all know, to establish firm surveillance over the Fund's major members. I am glad that this is mentioned prominently in the work program. What can the Fund do if the respective countries do not insist on this surveillance, as few have done, Belgium being the exception, owing to Mr. de Groote's influence? I think what we can do, despite all difficulties, is to whet our members'--even our largest members'--appetite for our surveillance by further improving its quality, and hope that countries will use our surveillance to influence and strengthen peer pressure on the financial system of industrial countries.

A few more points on country problems: those of the successor states of the Soviet Union will and should give us a great deal of work. But I am sure that we will not forget to give attention and assistance to other countries. The program foresees an intensification of our fiscal studies, and I welcome this, but I am not sure whether some improved coordination in this area with the work of our sister institution would not be possible.

I would like briefly to commend the proposals to prepare a number of other studies, particularly those connected with burden sharing and the establishment of a successor to the ESAF, as well as a study of subsidy schemes and of surges in capital flows. The problem of developing country debt is a matter which, fortunately, we cannot lay to rest yet, although progress has been made.

Mr. Marino made the following statement:

We are in broad agreement with the proposed work program. Therefore, I will only make some brief comments. On the completion of the Ninth Quota Review and the entry into force of the Third Amendment, like other speakers, I wish to express the satisfaction of our constituency that this process has finally been concluded. We look forward to the discussions on the Tenth Quota Review, particularly to the paper examining the working of the quota formulas. The experience with the determination of the quotas of some countries that have recently become members should provide a useful input into the formulation of the paper.

As to the world economic outlook, the strengthening of surveillance, international policy coordination, and SDR issues, it is indeed appropriate to have an early reassessment of the world economic outlook, in view of the important events of recent months and the new information that will become available during the coming weeks. It will be useful to have a paper that contains the ideas that the Economic Counsellor put forward during the last discussion on exchange rates regarding the causes and origins of the recent turbulence in financial markets and its repercussions.

On the regular world economic outlook exercise, it is encouraging that it will pay particular attention to the factors accounting for the differences in growth performance in the developing countries. We should not forget the importance of fostering growth-oriented adjustment in accordance with the mandate of the Articles of Agreement.

With respect to strengthening surveillance, we welcome the Fund's response to the call of the Group of Twenty-Four, and, in general, to that of the Interim Committee through the emphasis given to the importance of policy coordination between major industrial countries, as well as the fact that the Fund will intensify its activities regarding surveillance over the macroeconomic policies of the major industrial countries and their effects on the adjustment efforts of developing countries.

We continue to attach great importance to the role of the SDR for the provision of international liquidity. Therefore, like Mr. Fukui, Mr. Landau, and others, we look forward to an early discussion of the papers dealing with these issues and hope that we will be able to find a consensus on the need for a new allocation and a post-allocation redistribution.

On the design of policy advice and the policy on the use of Fund resources, we hope that the operational modalities of a possible facility to succeed the ESAF will soon be discussed, including Mr. Landau's suggestion to explore ways in which the Fund can contribute. Regarding the review of the CCFF, it seems that the agenda for December is already quite full. We would prefer to have the review scheduled for a later date. All of the papers on the design of Fund policy advice that are pending discussion are important; therefore, we would encourage their early circulation and discussion.

It is certainly opportune to discuss the experience with surges in capital flows and their impact on economic policy, especially in countries with adjustment programs. This paper will be a good complement to the discussion at the spring meeting of the Development Committee on prospects for increasing the flows of private resources to developing countries.

In concluding, I would like to echo Mr. Posthumus's call for a continued analysis of the financial structure of the Fund and the cost of Fund resources.

Mr. Peretz said that he wished to begin by welcoming all new Directors and Alternate Directors to the Board. As everybody had recognized, there was plenty of work for the Board to do over the coming few months, particularly, it seemed, in the first quarter of 1993. He agreed with Mr. Kafka's comment about the desirability of having, if possible, a more even flow of work for the Board. He also shared Mr. Kafka's preference for executive summaries and numbered paragraphs in papers prepared for the Board.

In commenting on a few elements of the work program, Mr. Peretz said that, in the tradition of the Board's discussions, it could be taken that he was content with those items that he did not mention explicitly. Nor would he take the time to welcome proposals for which his support was well known, such as work to harden the SDR or the creation of an evaluation office. There was a tendency in discussions such as that on the work program for Directors to endorse all the suggestions and then to add some--as indeed had been evident to some extent that day. With limited resources and limited Board time, his own view was that that was not a feasible approach; if any extra work was included in the program, other priorities would have to be changed.

Continuing, Mr. Peretz said he had two suggestions for possible savings, which, however, having listened to earlier speakers, he thought might not find sufficient support. First, a relatively slower approach to the preparatory work for the Tenth Quota Review could be appropriate. Whatever individual wishes might be, a Tenth Quota Increase was almost certainly some way off. Second, rather than bringing forward over a period of time, as had been proposed, a number of papers on various aspects concerning the role and the use of SDRs, it would seem better to consider all aspects of SDRs in one single Board meeting and possibly in one single paper. Given other priorities, he would be content to delay the full discussion of SDR issues until after the spring meetings.

He agreed that so much had changed since the previous world economic outlook discussion that it was quite right to have an early and thorough reassessment of the world outlook, Mr. Peretz continued. Indeed, he wondered whether the case had not been made for moving to an arrangement for more frequent but shorter discussions of the state of the world economy--or at least the state of the major economies. One possibility, for example, would be to broaden slightly the scope of the Board's regular discussions of exchange market matters, even making them monthly rather than six-weekly occurrences, as Mr. Filosa had suggested. That might be one idea to consider in the context of the discussion that he believed was needed of how to improve surveillance more generally. He had an open mind as to whether such a discussion should take place at the time of the next biennial surveillance review or separately. But in whatever format, a discussion of how to improve surveillance was needed very soon.

On a related, but more detailed point, Mr. Peretz stated that there was a need to review the effectiveness of shadow programs and the enhanced surveillance they should offer, whether in the context of countries that had completed drawings under an enhanced structural adjustment arrangement or in the context of countries that for one reason or another wished to demonstrate their cooperation with the Fund but did not wish to make purchases. It was important both for the Fund itself, and for the countries that benefited from the credibility of shadow programs, that surveillance in such cases be, and be seen to be, as robust as when resources were directly at stake. For example, clear targets should be set for shadow programs, and the Board should be notified, automatically and in a timely way, if countries were going off track. The latter point applied to real programs as well as shadow programs; he suspected a need for tighter arrangements for notifying the Board promptly when program reviews were delayed. The procedures already in place for notifying the Board of delays in Article IV consultations might be a suitable model.

He strongly agreed that urgent consideration must be given to making the Board's own work procedures more efficient, Mr. Peretz remarked. A number of broad approaches were possible, not necessarily as alternatives, but to some extent as complements. First, the Board could consider what needed to come to it at all. More issues could be dealt with on a lapse of time basis, or greater use made of subcommittees--for instance, for dealing with Article IV discussions and program reviews. Of course, a subcommittee might conclude that an issue was of sufficient importance to be discussed by the full Board, and the right of any Director to request a full Board discussion in any case would have to be reserved; it would also be important that any such request should not be seen as a hostile act. Another possible role for a subcommittee would be the detailed consideration of the budget; he noticed that budget matters weighed heavily in the work program in the first quarter of 1993. Again, the role of the subcommittee would be to look in detail at the budget and produce a report that the Board could consider, it was to be hoped, very quickly.

When items were put before the Board, more had to be done to make the discussions focused and efficient, Mr. Peretz considered, perhaps by strengthening or enforcing more strictly lead speaker rules. He would also favor including in all staff papers suggested key issues for discussion, as a way of trying to focus the Board discussion.

Those were just some initial ideas, Mr. Peretz noted. The Board should, he believed, have an early discussion of its work procedures. Some had suggested that that should be delayed until the new Board was into its stride, but he, to the contrary, saw danger in the suggestion. The review should be held before the new Board became set in its ways, and before new Directors started to emulate the bad habits of existing Directors. The amount of work to be done in the period ahead had made the need to improve the Board's working practices urgent. Therefore, he would certainly hope to see some changes implemented before the end of the year. If, as seemed likely, an ad hoc committee to consider Board procedures, as proposed by Mr. Posthumus, was to be set up, it should report quickly. He also agreed with the Managing Director's idea that Directors should return to the issue at the time of the Board retreat. By that time, Directors should have enough experience and experimentation with changes in procedures to make an evaluation. Such discussions of how to make the Board function more efficiently were an important precondition for the wider review that the Board was committed to make of the size, structure, and functioning of the Board. He saw little point in looking at the size and structure of the Board until everything possible had been done to improve its functioning.

Returning to other specific items on the work program, discussion of the two papers on global capital flows and international capital markets should, Mr. Peretz considered, be timed in parallel with the G-10 study. In due course, he hoped that the Board would also discuss the outcome of the G-10 study and the implications of its conclusions. He had noted that separate papers were proposed on monetary and payments arrangements in the countries of the former Soviet Union. He would suggest that those were related issues that might be dealt with in a single paper; he certainly hoped that they could be dealt with in a single discussion.

He was content with the work suggested with respect to the possible successor to the ESAF, Mr. Peretz stated, and he wholeheartedly welcomed any proposals to simplify the CCFF. He also welcomed another proposed simplification, that for Fund charges; presumably, the promised paper would take up the relatively limited technical issues that commanded widespread support at the June seminar. At the same time, he recalled that the wider issues of principle that had been raised at that seminar would still have to be taken up, although not necessarily as an urgent matter. He hoped that the work proposed on social safety nets, with which he was content, would be undertaken in conjunction with the World Bank, which probably had more experience in the area than the Fund.

In concluding, Mr. Peretz recalled that, although there was no explicit mention of it in the work program, it had been agreed, at a recent meeting of the Committee on Administrative Policies, that the issue of the Fund's travel policy would be looked at again, in the light of the changes in the World Bank's travel policy, to be implemented with effect from January 1993.

Mr. Landau said that he did not consider travel policy to be a priority issue.

The Chairman remarked that both Mr. Peretz and Mr. Landau were, of course, particularly well placed to know that the working conditions in both the Executive Board and the staff of the two institutions were somewhat different.

Mr. Dawson made the following statement:

> I would like to join others in welcoming new members of the Board, especially the new members from new member countries. It is fitting that the first item on the agenda of the first meeting of the new Executive Board is a discussion of the work program for the next several months. Nevertheless, it does remind me a bit of the first day of class in a new school year, when the class is given a sobering view of the vast quantity of material to be covered in the coming semester, complete with assignment deadlines and exhaustive, not to say exhausting, reading lists.
>
> The Managing Director has remarked on the heavy work load and consequent need for selectivity. By and large, we agree, but we would suggest a few additions and deletions from the program, starting at the top, with the Tenth General Review of Quotas.
>
> That issue should go to the back of the queue.
> How could anyone think that there's much to discuss,
> With authorities so worn by the last quota fuss!
> If there's ONE thing that should be abundantly clear,
> It's that nothing will be agreed by March of next year.
> So let's all agree here and now to abjure,
> From discussing things that are, at best, premature.
>
> The suggestion by Mr. Fukui to avoid discussing the quota formula the next time around, because it might simplify matters, certainly is not in accord with the strong view on the part of a number of members of this Board, including my chair, that the

quota formula is one of the issues that needs to be looked at. There is no doubt that that process would take a long time. In addition, there should be no illusions about our ability to arrive at new quota formulas or to conclude the Tenth Quota Review any time soon, unless, of course, we follow what I understand was Mr. Filosa's proposal for "concluding" the Tenth General Review of Quotas by deciding that there is no need to do anything. That is a definition of "conclude" that I could subscribe to.

An early reassessment of the world economic outlook is scheduled for December. In principle, this is a good idea. The outlook for the industrial countries has weakened since only last summer. We hope the staff will use the opportunity of this reassessment to provide a clearer analysis of the origins of this weakness and of the near-term prospects for revitalized growth. With growth flickering, inflation vanishing, and unemployment rising, the usual counsel about the need for fiscal consolidation and monetary vigilance is unlikely to be persuasive to our authorities unless they also address the need for stronger activity.

We believe that the world economic outlook discussion should play a more constructive role than merely being the village scold. In this regard, the statement in the work program about the reassessment of the world economic outlook leaves us somewhat uneasy. The staff seems to be suggesting that it study the broader causes of recent financial market turbulence in order to recommend policies that will avoid a recurrence of such turbulence. This is all right as a intermediate step, but the real need is to find policy adjustments that will restore noninflationary, sustainable growth, not just avoid market turbulence. Likewise, we are not entirely sure what is intended by the proposal to "revisit the U.S. budget deficit problem." This would make the fourth visitation to this issue this year. Of course, if the staff or the Board has something new to say, we will be "all ears." I certainly agree with the commentary of Mr. Filosa and others about the possibility of having more frequent exchange rate development reviews as well as transforming them into a mini-world economic outlook review.

We agree that it is timely to take up the biennial surveillance review. Experience with the temporary shift in the consultation cycle was not entirely satisfactory. Little was saved and important developments, such as incipient currency turmoil in Scandinavia in the summer, went unnoticed for lack of prior surveillance by the Board. We are reinforced in the view that regular, systematic Board review is an essential component of effective surveillance. The surveillance review needs to identify opportunities for improved surveillance of industrial countries. As a step in this direction, the framework needs to go beyond the medium-term mantra of fiscal consolidation, increased savings, and monetary discipline. Better analysis of evolving economic trends is needed. The cross-border effects of national actions need to be given greater attention in the development of policy recommendations. We would hope to see some concrete recommendations in this area.

Keeping the SDR under review is a continuing charge of the Interim Committee. However, we believe the proposed papers on the use and holdings of SDRs and the role of the SDR in reserve management will meet this charge. A scheme for reallocating SDRs was discussed earlier this year. We believe that no purpose would be served by yet another paper on reallocation schemes, since it is clear that such schemes will not find the necessary support of the Board. Also, we mentioned in the previous discussions, any kind of reallocation scheme would require congressional approval on the part of the United States, a prospect that no administration will be looking forward to with much enthusiasm. A paper on a "hardened SDR" might be an appropriate topic for an occasional paper by the Research Department. However, its policy relevance for the Board is doubtful.

We look forward to strong support from the Fund on the G-10 study of international capital flows, an area in which the staff has already done a good deal of excellent work. As the work program suggests, much of the support that will be required will be in the nature of a synthesis of recent work, rather than in original studies. As suggested, the work on the annual review of international capital markets will also provide an opportunity to extend earlier studies in a way that will support the G-10 study.

On country-related issues, it is clear that the increasingly universal character of the Fund will continue to place additional responsibilities on staff, management, and the Board. We particularly look forward to the first Article IV consultations with the former Soviet states, which we hope will be followed in due course by programs for the countries that are most advanced in their reform efforts. In this connection, in view of the importance of monetary issues for macroeconomic stability and the staff's ability to design Fund programs, we think that the paper on monetary arrangements in the former Soviet Union should be discussed as soon as possible.

That being said, however, with some 175 country papers--including Article IV consultations, new programs, and program reviews--expected to come to the Board in the next six months, further thought should be given to how the Board can streamline its discussion procedures. One possibility would be to have a more formal designated speaker system, so as to even out the burden among offices that tend to speak on all, or nearly all, country papers. Another would be to have a larger number of statements submitted for the record, with Board commentary devoted primarily to points of emphasis or disagreements with the staff paper. I could go along with having some papers on a lapse of time basis, but not with setting up a subcommittee of the Board to deal with certain country papers; it would soon lapse into a committee of the whole and would serve no purpose. I also disagree with Mr. Kafka's proposal on the numbering of paragraphs and the inclusion of executive summaries. The first of these suggestions appears to be excessive micromanagement, and the second, I fear, would only provide a more superficial basis for Executive Directors' offices to base their comments upon. In the meantime, however, in the interest of more manageable Board schedules, the Board should plan to meet three times a week on a regular basis, rather than try to keep every other Monday free.

I disagree with Mr. Kaeser's suggestion that the issue of the size of the Executive Board can wait until 1994. As Mr. Peretz remarked, the Board should, before it gets too locked into its own ways, take a look at its functioning. In a sense, I agree that structuring comes first and function later. A February discussion would give new members of the Board a chance to have a sense of how the Board works, based on two or three months of activity. Perhaps some conclusions might be drawn.

As to policies on the use of Fund resources and the design of policy advice, we look forward to the two papers on the ESAF and hope that the design of a possible successor facility will build on, and, if possible, improve upon the experience with the current ESAF. In our view, this will involve close attention to the interrelation between progress on structural reform and macroeconomic stabilization and continued emphasis on policy conditionality.

I have to say that I disagree with Mr. Goos on the issue of social safety nets, and I agree with Mr. Peretz about the need for the essential work on that topic to be coordinated with the World Bank. I can agree with Mr. Goos's suggestion that we take a broader view of what we are doing with countries, which was among some issues raised at the earlier retreat that I thought it was agreed we would turn to in the next work program. Of course, it was a difficult issue to devote time to, when there were so many other more pressing issues.

We also look forward to the review of the CCFF, as well as to the staff's proposals on how the facility might be made less "curious." I hope we will also have occasion to discuss the papers mentioned on the design of policy advice, as these are important issues that arise with increasing frequency in our country discussions.

Regarding other measures, we are pleased to see that management's long-awaited proposals for the establishment of an evaluation office are to be discussed next month. We believe that, with a proper mandate and staff, such a unit could make an important contribution to the continued refinement of Fund-supported programs, and we look forward to its establishment in the near future.

We were disappointed not to see any reference to the work of the environmental team. As the Managing Director had noted in his address to the Rio Conference, there are important interrelationships between the Fund's objective of promoting "high quality growth" and protecting the environment. It has been more than a year since the Fund began allocating staff resources to these issues. Accordingly, we believe that it is time for a report of their work to date and their work plan for the coming year. In our view, such a paper should be brought to the Board for discussion at an early date, preferably before the end of the calendar year.

A further omission in the work program is a discussion of the Fund's first-class travel policy, which we would like to see brought forward into the current work program. In view of the many demands on the Fund's budget and importance of holding down charges, we think it only right that the Fund should take steps to contain its operational costs.

With these remarks, we look forward to a busy and productive period ahead, which I am sure will be enriched by the views of our new colleagues on the Board.

Mr. Zoccali made the following statement:

Notwithstanding the overwhelming nature of the proposed work program, global Fund membership for the first time is a cause for optimism regarding the ability of this institution and its Executive Board to make a difference while pursuing the objective of promoting international monetary cooperation.

Since I broadly support the work program, I will limit my intervention to a few points.

As the work load for the next few months will indeed be very intensive, management must be afforded flexibility in the sequencing of essential priorities so as to avoid overloading the staff or crowding out essential services to members undergoing adjustment and transformation. At the same time, increased demands on the Board will require further efforts to increase its efficiency. Therefore, I welcome initiatives for simplifying

Board procedures. In the meantime, a steady flow of agenda items to minimize periods of heavy bunching of policy issues, in addition to the consolidation of related topics, whenever possible, should help enhance the depth and efficacy of its work. With respect to the scheduling of discussion on the size, structure, and functioning of the Executive Board, I wish to side with those who have expressed support for the sequencing of aspects related to functioning, first, and to size and structure, subsequently.

The reorientation of the Fund's resources toward surveillance and issues affecting the international monetary system constitutes a necessary development to facilitate the smooth and symmetric functioning of the process of international adjustment. I support the critical search for improved methods to strengthen surveillance activities--in particular, through more regular and systematic action--over major industrial countries. And I favor, at this time of tripolarity and increasing currency convertibility, revisiting the issue of rules versus discretion in policy coordination.

I also attach special significance to activities related to the reassessment of the world economic outlook, particularly in the light of recent developments. Systematic downward revisions could weaken the credibility of the entire exercise. A change in the scope of the exchange rate development discussions might constitute a useful vehicle for strengthening the world economic outlook process. While the recovery of growth should be the primary focus in the context of a medium-term framework, more prominence should be given in the analysis to structural reforms in industrial countries as well as to the interlinkages between industrial and developing country economies.

The recent exchange market tensions highlight the importance of both the seminar on economic and monetary union in Europe and the analysis of the systemic implications of capital flows in the context of internationally integrated capital markets. The report on the experience with surges in capital inflows deserves similar priority, particularly in view of its implications for Fund policy advice. This being said, the annual review of international capital markets should avoid overlaps.

As to the SDR, this chair considers the strengthening of its reserve asset characteristics as the necessary counterpart of any scheme to provide international liquidity. We support the proposed schedule of work in the expectation that any full-fledged discussion of reallocative schemes would be preceded by consideration of papers on the pattern of SDR use and holdings and on its role in reserve management.

On trade matters, this chair favors an unequivocally active institutional stance in the coming months. Since the initiation of Uruguay Round negotiations, protectionism in certain industrial countries has increased, and, more recently, a subsidy war among the major players has emerged. Moreover, the adjustment momentum and outward orientation of many developing countries will not sustain growth or ensure external viability if the principal transmission mechanism languishes behind the specter of unproductive subsidies and increasing bilateralism. While trade negotiations are clearly not in the domain of this institution, the systemic and individual country repercussions merit, at the least, the continuous signaling by the Fund of the consequences of the alternative scenarios, and the earliest consideration of the implications of the Round for Fund policy, program design, and resource allocation.

As for quotas, we look forward to the coming into effect of the Ninth General Review, as well as to early consideration of the extension of the period of consent for those members with protracted overdue financial obligations that are cooperating with the Fund. In addition, intensified demand for Fund resources and the prospective evolution of its liquidity position warrant early activation of the Tenth General Review. Postponement of the end-March 1993 deadline should be accompanied by a clear program of work until the review is effectively concluded.

On country matters, I support the significant effort being undertaken by the Fund in assisting the states of the former Soviet Union in their courageous and historic transformations. The discussions of the proposed papers on monetary arrangements and payments systems address fundamental issues in the transformation process. The leadership role that this institution is also playing in policy design and technical assistance to other members undergoing adjustment must not, however, be allowed to wane. Like other speakers, I consider that financial reforms deserve the same degree of attention as fiscal reforms, for example, in the areas of monetary accounting and banking supervision. In that context, I welcome the overall assessment of the effectiveness of the Fund's technical assistance programs.

The universality of Fund membership and the systemic benefits associated with a well-functioning process of international adjustment make it fitting that this Board reconsider the modalities of paying for future administrative and capital budget proposals. The Fund's intermediation spread must be kept efficient and the incidence of the cost of running the institution distributed equitably. In this regard, Board discussions on provisioning and burden sharing should also be accorded high priority.

Mr. Shaalan said that he could broadly endorse the Managing Director's statement on the work program for the period ahead. The program reflected rather well the priorities and preoccupations expressed by the Governors during the Annual Meeting. At the same time, the heavy work load was striking, particularly with respect to country matters. The large number of country items again underscored the need to explore ways of enhancing Board efficiency--a matter that he understood would be taken up in the study referred to in the Managing Director's statement and at the forthcoming Board retreat.

With respect to the quota increase, Mr. Shaalan observed that a staff paper would be issued soon on the matter of extending the period of consent, particularly as it related to the countries in arrears to the Fund. His chair would strongly support an extension of the period beyond the current deadline.

One issue on which many Governors had commented at the Annual Meeting was the effectiveness of Fund surveillance, particularly with respect to the major industrial countries, Mr. Shaalan recalled. That was clearly not a new issue, but recent developments had accentuated the need to explore ways of strengthening the Fund's surveillance role, both in the bilateral and the multilateral context. That sentiment had been clearly echoed during the Annual Meeting, and he wished to note and welcome, in particular, the emphasis put on that critical area by the Group of Twenty-Four developing countries. The Managing Director's statement did refer to the issue, and he hoped that its consideration by the staff and the Board would lead to concrete proposals on steps that could substantively enhance the surveillance process.

One other paper that he wished to single out for emphasis was that on the experience with surges in capital inflows, Mr. Shaalan said. In his view, that would be a timely paper for discussion, in view of the complex policy issues that such inflows were giving rise to in an increasing number of countries.

He wondered whether there would be an occasion in the period ahead to review recent experience in Fund technical assistance, Mr. Shaalan remarked. It would be useful, for instance, to examine the effectiveness of the technical assistance that had been provided to the states of the former Soviet Union, and the extent to which progress in enhancing the staff resources in the relevant departments had eased the constraint on the provision of technical assistance to other regions.

Before concluding, Mr. Shaalan said that he wished to associate himself with the remarks made by Mr. Al-Jasser in regard to the timing of Board consideration of the matter of the Third Amendment. It would be important, in his view, that the discussions take place before the Board considered any individual case that might involve the application of the suspension provision.

Mr. Mwananshiku made the following statement:

I first join others in welcoming those who are sitting in the Board for the first time.

There is no question that the sharp increase in membership and the increased involvement of the Fund in the adjustment and transformation process in a large number of countries mean a heavy work load for the Executive Board in the year ahead. The Managing Director, therefore, has made the right appeal in urging selectivity in our work priorities. His statement takes a significant step in that direction; even so, we are still faced with a heavy work load, hence the need to look at the question of Board efficiency at an early date.

As we begin to close the chapter on the Ninth Review of Quotas, it is important that we return to the issue of the countries with protracted overdue financial obligations that are cooperating with the Fund in efforts to resolve their problems and that may still wish to consent to the increase in their quota.

Concerning developments in the world economy, I agree that an early review of the situation is appropriate. It is important, in this respect, that the staff paper focus on the policy prescriptions required to deal with the slow recovery of the global economy. Also evident, perhaps, is the need to examine the broader causes of the recent turmoil in financial markets. Unfortunately, this is an area where the Fund appears to be in a reactive mode, rather than taking the lead in drawing attention to potential difficulties.

This flaw in the surveillance process leads me to emphasize, as the Managing Director's statement suggests, that we must look into strengthening the Fund's surveillance role, especially as it relates to industrial countries. In this connection, I would like to draw the Board's attention to the request of the Group of Twenty-Four that a study be undertaken on the macroeconomic policies of the major industrial countries and their effects on the adjustment efforts of developing countries. The Managing Director's statement alludes to this request, but it is not clear whether a study, as such, is to be made available during the spring meeting of the Interim Committee, as requested. I would like some clarification on this matter, because the study, although related to the general question of surveillance, is important on its own.

I attach great importance to work on the options and operational modalities of a successor facility to the ESAF. I agree with management that staff papers on these matters should be discussed early in 1993. Perhaps we should aim to have a Board discussion before the spring Interim Committee meeting in order to get feedback from the Committee to help expedite our work.

Like others, I support a paper on the role of the SDR. I look forward to the paper on social safety nets in the adjustment process and to the one on the debt situation in developing countries. We would want to focus on those regions where the debt problem remains serious and suggest possible remedies.

I welcome the steps being taken to bring the matter of the establishment of an evaluation office to the Board. As the Fund becomes more involved in giving policy advice and in providing financing to an increased number of countries, it is crucial that we establish a process for critically evaluating our work in order to enhance the effectiveness of the institution.

Mr. Evans said that he too would like to welcome the new members to the Board. He generally supported the Managing Director's statement, and the proposed program, and would like to comment on one or two of its elements.

He had been pleased to see the renewed emphasis on the Fund's core activities, general issues to do with the international monetary system, and the health of the world economy, Mr. Evans remarked. He agreed that a reassessment of the current world economic outlook would be useful, and was glad that the Managing Director had taken the initiative to put that on the agenda shortly. He would caution against making a general, rather than ad hoc, practice of quarterly forecasting exercises, which were unlikely to prove to be any better than half-yearly ones. Similarly, he also very much supported the general thrust of attempting to improve surveillance, particularly of the major industrial countries. The difficulties were well known; as Mr. Dawson had suggested, attempts to do so would not be unrelated to the quality of the surveillance that was undertaken. By and large, the problems lay not with the analysis but with making the surveillance effective. If anything, it was gratifying to note that--in terms of prospects of improvement in that area--most of the major countries themselves felt a need for improved surveillance, which might well facilitate the adoption of improved procedures. He had been somewhat perturbed to hear Mr. Landau--if he had understood him correctly--link his support of improved surveillance with what seemed to him to be an unrelated issue--that of supplementary budgetary appropriations for FY 1993. Perhaps some light could be thrown on that link.

Specifically, speakers had referred to the problem of bunching, which seemed difficult to avoid, Mr. Evans considered, primarily because the Board's program was driven by the work program of the staff. However, although there were required deadlines for most country matters--certainly for those dealing with use of resources--for most of the general policy matters, there were no such required deadlines. He saw no reason why the policy material could not be prepared to suit the staff's deadline and then be allowed to sit until the Board's program allowed it to be considered. For example, it would have been useful, in the October/November period, when the Board had very little on the agenda, to have had some of the policy material available. Therefore, he suggested that when the work under the current program was done, some of it should be pushed back, rather than attempting to force it onto the current agenda, until subsequent slow periods, which experience suggested would occur.

On matters of lower priority, Mr. Evans continued, he agreed with those who had suggested that the Tenth Quota Review might be left for a later date, although he would not be averse to looking at Mr. Filosa's suggestion for considering whether to dispense with the Tenth Quota Review in favor of the Eleventh Review. In the end, one or the other review would be dispensed with. The Board might want to wait some years before taking a decision, but there might also be some merit to following Mr. Filosa's suggested course. That aside, those people who wished for an early consideration of the Tenth General Quota Review were basing that consideration upon the experience with the Ninth Quota Review, which had been a long drawn-out affair. If heed was taken of Mr. Dawson's comments, and if it was recognized that the Tenth General Review of Quotas would not be implemented for some considerable time, the wise course would be to put off starting on it for some considerable time.

On Board procedures, Mr. Evans said that he agreed that the issue needed to be tackled. He would support looking at the types of ideas raised by Mr. Peretz. Board procedures had, of course, been looked at frequently in the past, without much progress having been made. It seemed to him that as long as the Board had 24 members, it could not avoid the possibility of 24 interventions on any topic. The same point would apply to the idea of a subcommittee; there would be 24 interventions in committee, also. Board procedures would not improve until the nature of the material that came before the Board was changed so as to better focus Board discussion. As a start, it might be kept in mind that every country paper that came to the Board was approved by the Managing Director or the Deputy Managing Director. Every mission that went to a country on country matters carried a brief approved by the Managing Director or the Deputy Managing Director. The work load was enormous, but there was a procedure to make it manageable. A similar procedure that changed the nature of the papers that came to the Board could also help the Board.

Mr. Smee remarked that he had profited from the discussion of the work program, and he agreed with other Directors that it was appropriate for the new members of the Board to have the work that had to come before them as their first topic for discussion.

His remarks would be focused on one area, Mr. Smee said, namely, the world economic outlook, the strengthening of surveillance, international policy coordination, and SDR issues. The premise for him--and no doubt for everyone else--was that the Fund's world economic outlook was the pre-eminent forecast in the world in terms of economic prospects. Like many other colleagues, he welcomed the reassessment of the world economic outlook that was expected to be discussed in December. He knew that that reassessment would involve another downward revision to real growth prospects. Mr. Zoccali had said that frequent downward revisions were hurting the credibility of the Fund, which was true, although admittedly, other forecasters were revising downward their forecasts, not only international institutions but national authorities, including his own. He was more worried about how much the credibility of ministers was being hurt as they continuously revised downward those forecasts.

From a policy standpoint, the usefulness of a reassessment of the world economic outlook was questionable if that reassessment did not provide the Fund, and hence the policymakers, with a better understanding of why growth had been weaker, Mr. Smee added. For nearly two years, his authorities, and the Fund and other institutions, had been continuously marking their forecasts downward. Much of the time, the forecasts were based on recent information, with lip service paid to certain aspects that were abnormal in the current particular cycle; then, detailed numerical forecasts were issued that, frankly speaking, were designed to find an argument rather than explain what was happening in an underlying sense, and what the prospects were for economies. Those frequent downward revisions were also contributing to reduced confidence and reduced growth. The forecasters themselves saw a kind of negative cycle, and were feeding on each other in terms of whether they really knew what they were doing for those who were supposedly directing economic policy for the world, the Fund being most particularly involved.

The industrial countries themselves had followed a reasonable and appropriate medium-term strategy, which was itself going to come under attack because of the reduced credibility of ministers and the growing skepticism inside the private sector, Mr. Smee said. Canada had followed a medium-term strategy of fiscal consolidation and price stability with structural reform. The current concern was the continuing slower than expected growth, but more particularly, it was the lack of understanding of the interaction of structural changes and cyclical factors.

Canada had looked at a substantive set of measures of tax reform, Mr. Smee stated. It had entered into a free trade agreement with the United States, and concluded an agreement enlarging it to embrace Mexico, the North American Free Trade Agreement. General equilibrium models had been made of the long-run, positive impact, to show why those moves were a great idea; little attention had been paid to the short run, and the negative implications of rationalization had been overlooked. In the short term, the structural reform efforts were contributing to slower growth. Through rationalization, jobs were being lost, thereby contributing to a lack of confidence, even though structural reform was being publicized as being good for people. More analysis was needed not only of the short-term impacts of different structural reform efforts and how they interacted with the cyclical factors, but also of how they interacted internationally. Many countries and groups of countries were undergoing substantive structural reform, and he himself was not sure of the implications of that reform for each country, never mind what Canada or other countries were doing.

In short, he did not expect the truth to be revealed to the Board in December, Mr. Smee commented. He was not sure that any truths would emerge in any easy way. He hoped that, in moving from the December assessment to the April world economic outlook exercise, much more analysis would be directed to the prospects, and not as a piece of academic analysis on the sideline. A better idea of the important factors that had been analyzed, and the related information, even if the implications were not clearly known or understood, would help to dissipate the downside risks of the forecasts that had been part of the outlook for the past 18-24 months, without any positive results in terms of getting the world economy moving again in a more substantive way. The Fund might then be in a better position to give better policy advice to developing countries in Central and Eastern Europe, as well as the states of the former Soviet Union, as it moved forward, it was to be hoped, into a more positive, virtuous cycle in terms of analytical, policy advice, and economic prospects.

In view of the demands upon the Fund's resources, the high priority given to papers on the SDR in the work program statement was inappropriate, Mr. Smee considered, going beyond what his chair considered to be the Interim Committee's request to keep the matter of SDRs under review. Another paper on the role of the SDR in the provision of international liquidity was not needed at that stage; by the same token, proposals relating to reallocation schemes and the use of SDRs in reserve management, for instance, had been discussed at great length and did not need to be rehashed, in view of the very large and substantive work program before the Board on other matters.

Reducing the emphasis placed on SDRs might free up resources within the Fund to be used more profitably elsewhere, for instance, on currency arrangements and exchange rate regimes, two areas where the Fund was the leading global institution to deal with those issues, Mr. Smee observed. While a G-10 study was under way, to which the Fund was contributing and would continue to contribute positively, the Board should be addressing those issues more in terms of their practical application, using its comparative advantage in those areas to get a grip on where those various currency arrangements and regimes were leading in terms of policy implementation and policy effect.

Mr. Arora said that he joined others in welcoming new members to the Board. He had only three points on the work program. The first was to note that whenever the central role of the Fund was mentioned--such as the management of the international monetary system, the SDR, the Tenth Quota Review--the Board tended to fight shy. That was a curious phenomenon at a time when people were talking about tightened surveillance activity and the problems of growth. Moreover, the Chairman of the Federal Reserve Board had earlier said in a press interview and in some articles that what had been happening in the world economy in the recent past was not fully understood, and that the assumptions, the models, the technical specifications of policy advice that had been worked on for some time were failing to indicate the shape of policy to follow: his conclusion, too, was that more analysis was needed. Although a reassessment of the world economy was scheduled for December, it might not be possible to get at the type of problems that Mr. Smee and Mr. Dawson had mentioned. The spring 1993 world economic outlook exercise might be the proper occasion for a more extended, in-depth analysis of the factors that had caused the current problems of the world economy. He totally agreed with Mr. Dawson that the Fund, as an institution, had to devote its attention to the question of noninflationary, sustainable growth in major industrial economies if the world economy was to have a chance of progress in the near future.

On the role of the SDR, Mr. Arora stated that he agreed with Mr. Landau and Mr. Prader on the need for early consideration, not in a technical sense, but in the context of the question of the Fund's leadership role. After all, the basis for the SDR was the intention that the Fund would increasingly play a more important role in the management of the international monetary system rather than be content with a situation in which its policy advice was frequently ignored and not acted upon when it needed to be. That was not to say that the Fund itself did not need to look at its advice; it should, particularly in the context of the question of growth. He would support a discussion of the role of the SDR as quickly as possible.

With respect to the ESAF, some suggestions had been made for a discussion and review before consideration was given to whether a successor facility was needed, Mr. Arora noted. His view was that the two aspects should be considered together. The review of experience was intended to improve the design and effectiveness of programs. But a successor facility was required, as was admitted in the communiqué issued by the major industrial countries at their Munich summit; he presumed that the leaders of the countries who had looked at the question at that time felt that the ESAF had been a successful instrument and that it needed, therefore, to be replaced by another one when the time came.

Mr. Kagalovsky said that he wished to express great gratitude to all Board members for their warm welcoming words. He hoped very much that his chair's contribution to the Board's work would be useful. As a newcomer, he did not wish to take much of the Board's time. He accepted the program presented by the Managing Director, and was looking forward to fruitful work under it.

The Executive Directors agreed to resume 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/92/131 (10/30/92) and EBM/92/132 (11/4/92).

3. ACCESS POLICY - GUIDELINES ON ACCESS LIMITS; EXTENDED FUND FACILITY - AMENDMENT; ACCESS LIMITS UNDER SPECIAL FACILITIES, STRUCTURAL ADJUSTMENT FACILITY, AND ENHANCED STRUCTURAL ADJUSTMENT FACILITY; AND ELIMINATION OF FLOATING

ACCESS POLICY - GUIDELINES ON ACCESS LIMITS

(1) The Fund, having reviewed Decisions No. 6783-(81/40), adopted March 11, 1981, as amended, No. 7600-(84/3), adopted January 6, 1984, as amended, and No. 9546-(90/145), adopted September 17, 1990, as amended, and having noted that, upon the fulfillment of the requirement for effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the Resolution of the Board of Governors No. 45-2, it may no longer approve stand-by or extended arrangements under the Enlarged Access Policy, decides that, after that date, access by members to the Fund's general resources under the credit tranches and the extended Fund facility shall be subject to an annual limit of 68 percent of quota and a cumulative limit of 300 percent of quota, net of scheduled repurchases. These limits shall not be regarded as targets. Within these limits, the amount of access in individual cases will vary according to the circumstances of the member in accordance with criteria established by the Executive Board. The Fund may approve stand-by or extended arrangements that provide for amounts in excess of these access limits in exceptional circumstances.

(2) The guidelines and the access limits are intended to be temporary. Therefore, they will be reviewed not later than October 29, 1993 and annually thereafter in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity.

Decision No. 10181-(92/132), adopted November 3, 1992

EXTENDED FUND FACILITY - AMENDMENT

Upon the fulfillment of the requirement for effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the Resolution of the Board of Governors No. 45-2, Decision No. 4377-(74/114), adopted

September 13, 1974, as amended, shall be amended further by deleting Section II, paragraph 4(a), and the reference to that paragraph in Section II, paragraph 4(b).

Decision No. 10182-(92/132), adopted
November 3, 1992

ACCESS LIMITS UNDER SPECIAL FACILITIES

Upon the fulfillment of the requirement for effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the Resolution of the Board of Governors No. 45-2:

(a) The percentages of a member's quota referred to in Decision No. 8955-(88/126), adopted August 23, 1988, as amended, on the establishment of the compensatory and contingency financing facility, shall be changed as follows:

- in paragraph 8(a)(i), 105 percent shall be changed to 80 percent;

- in paragraph 8(a)(ii), 83 percent and 40 percent shall be changed to 65 percent and 30 percent, respectively;

- in paragraph 8(a)(iii), 40 percent shall be changed to 30 percent;

- in paragraph 8(a)(iv), 83 percent and 17 percent shall be changed to 65 percent and 15 percent, respectively;

- in paragraph 8(a)(v), the references to 83 percent and 57 percent shall be deleted;

- in paragraph 8(a)(vi), 122 percent shall be changed to 95 percent;

- in paragraph 8(b), 40, 17, and 25 percent shall be changed to 30, 15, and 20 percent, respectively, and the reference to 57 percent shall be deleted;

- in paragraphs 12(a)(i) and 12(a)(ii), respectively, 40 percent shall be changed to 30 percent, and 65 percent to 50 percent;

- in paragraphs 12(b)(i), 12(b)(ii), and 12(b)(iii), respectively, 20 percent shall be changed to 15 percent, 40 percent to 30 percent, and 65 percent to 50 percent;

- in paragraph 12(c), 83 percent shall be changed to 65 percent;

- in paragraph 21(a), 35 percent shall be changed to 25 percent;

- in paragraph 23, 40 percent shall be changed to 30 percent;

- in paragraphs 36(b)(i), 36(b)(ii), 36(c)(i), and 36(c)(ii), 17 percent and 42 percent shall be changed to 15 percent and 35 percent, respectively;

- in paragraph 37(a), 105 percent shall be changed to 80 percent.

- in Section V, on the compensatory financing of fluctuations in the cost of oil imports, all the references to percentages of a member's quota shall be deleted.

(b) The percentage in paragraph 2 of Decision No. 2772-(69/47), adopted June 25, 1969, as amended, on the buffer stock financing facility, shall be changed from 45 percent to 35 percent.

Decision No. 10183-(92/132), adopted
November 3, 1992

STRUCTURAL ADJUSTMENT FACILITY - ACCESS LIMITS

Upon the fulfillment of the requirement for effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the Resolution of the Board of Governors No. 45-2, the percentages of quota referred to in paragraph 2 of Decision No. 8240-(86/56) SAF, adopted March 26, 1986, as amended, on access under the structural adjustment facility, shall be changed as follows:

- 70 percent shall be changed to 50 percent;
- 20 percent shall be changed to 15 percent; and
- 30 percent shall be changed to 20 percent,

provided that, notwithstanding paragraph 4(3) of Decision No. 8238-(86/56) SAF, adopted March 26, 1986, as amended, the SDR amount under three-year commitments in effect at the time this Decision becomes effective shall not be reduced as a consequence of such changes.

Decision No. 10184-(92/132)SAF, adopted
November 3, 1992

ENHANCED STRUCTURAL ADJUSTMENT FACILITY - ACCESS LIMITS

Upon the fulfillment of the requirement for effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the Resolution of the Board of Governors No. 45-2, the percentages of quota referred to in paragraphs 1 and 2 of Decision No. 8845-(88/61) ESAF, adopted April 20, 1988, as amended, on access under the enhanced structural adjustment facility, shall be as follows:

- 250 percent shall be changed to 190 percent, and
- 350 percent shall be changed to 255 percent.

Decision No. 10185-(92/132)ESAF, adopted
November 3, 1992

ELIMINATION OF FLOATING

Buffer Stock Financing Facility

a. Except for the purpose of determining the level of conditionality applied to purchases in the credit tranches, the Fund's holdings of a member's currency resulting from purchases under Decision No. 2772-(69/47), adopted June 25, 1969, as amended, on the buffer stock financing facility, shall be considered separate from the Fund's holdings of the same currency resulting from purchases under any other policy on the use of the Fund's general resources. In cases of concurrent requests for purchases under Decision No. 2772-(69/47) and purchases in the credit tranches, purchases under Decision No. 2772-(69/47) shall be deemed to be made first.

Extended Fund Facility

b. Decision No. 4377-(74/114), adopted September 13, 1974, as amended, on the extended Fund facility, shall be further amended by deleting the second sentence of Section II, paragraph 4(b).

Borrowed and Substituted Resources Under Enlarged Access Policy

c. For purposes of determining the level of conditionality applied to purchases in the credit tranches, the Fund will take into account its holdings of a member's currency resulting from purchases made with borrowed resources under Decision No. 6783-(81/40), adopted March 11, 1981, as amended, and with substituted resources in accordance with Decision No. 9546-(90/145), adopted September 17, 1990, as amended.

Compensatory and Contingency Financing Facility

d. Decision No. 8955-(88/126), adopted August 23, 1988, as amended, on the establishment of the compensatory and contingency financing facility, shall be amended further by replacing paragraph 4 of Section I by the following:

"4. Except for the purpose of determining the level of conditionality applied to purchases in the credit tranches, the Fund's holdings of a member's currency resulting from purchases under any of the policies set forth in this Decision shall be considered separate from the Fund's holdings of the same currency resulting from purchases under any other policy on the use of the Fund's general resources. In cases of concurrent requests for purchases under any Section of this Decision and for purchases in the credit tranches, purchases under this Decision shall be deemed to be made first."

Decision No. 10186-(92/132), adopted
November 3, 1992

4. OPERATIONAL BUDGET - METHOD OF ALLOCATING CURRENCIES - OPERATIONAL GUIDELINES

The Executive Board decides that the guidelines regarding the use of currencies in the operational budget as set out on pages 8-9 of EBS/90/113 (6/15/90) (Decision No. 9480-(90/103), adopted June 27, 1990), shall continue to apply until January 31, 1993. (EBS/92/169, 10/27/92)

Decision No. 10187-(92/132), adopted
October 30, 1992

5. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAM/92/109 (11/2/92) and by an Advisor to Executive Director as set forth in EBAM/92/108 (10/29/92) is approved.

APPROVED: May 11, 1993

LEO VAN HOUTVEN
Secretary