June 7, 2001
Approval: 6/14/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 00/86

10:40 a.m., August 28, 2000

Contents

Page

Executive Board Attendance

H. Köhler, Chairman
S. Fischer, Acting Chairman

Executive Directors	**Alternate Executive Directors**
	A.S. Alosaimi
	J. Ntamatungiro,Temporary
	J.A. Chelsky, Temporary
	J. Nelmes, Temporary
A.G. Carstens	H. Oyarzábal
	W. Szczuka
	F. Zurbrügg, Temporary
	S. Bonomo, Temporary
B. Esdar	W.-D. Donecker
	A.G. Zoccali
	A.A. Rojas, Temporary
R. Faini	H. Vittas
K.-T. Hetrakul	
	A.G. Karunasena
	N. Jadhav, Temporary
W. Kiekens	J. Prader
	N. Burnashev, Temporary
	Å. Törnqvist
K. Lissakers	
	G. Bauche
	M. Daïri
	M.R. Shojaeddini, Temporary
	C. Rustomjee
A.V. Mozhin	S. Vtyurina, Temporary
	S. Collins
	R. Burgess, Temporary
M. Portugal	R. Junguito
A.S. Shaalan	A.F. Al-Faris
	K. Ongley, Temporary
Wei Benhua	Liu F., Temporary
J. de Beaufort Wijnholds	Y.G. Yakusha
Y. Yoshimura	S. Hinata, Temporary

S.J. Anjaria, Secretary
J. Prust, Acting Secretary
C.E.L. Andersen, Assistant
P. Cirillo, Assistant
S.T. Djumena, Assistant

Also Present

IBRD: P. Rubianes, Office of Executive Director; A. Solimano and D. Yuravlivker, Latin America and Caribbean Regional Office. Asia and Pacific Department: J.H. Gobat. European I Department: M.C. Deppler, Director; A. Leipold. External Relations Department: T. C. Dawson, Director; G. Hacche, Deputy Director; F. Baker, R.R. Brauning, D.R. Hawley, M.P. Kane. Fiscal Affairs Department: A. Cheasty. Legal Department: W.E. Holder, Deputy General Counsel; R.C. Baban, P.M.-P.L. De Boeck, S.C. Ho. Middle Eastern Department: E.H. Gardner, K. Nashashibi. Monetary and Exchange Affairs Department: F.L. Delgado, K. Driessen, M.Y. Khamis, A. Ouanes. Policy Development and Review Department: J.T. Boorman, Director; L.J. Lipschitz, Deputy Director; A. Banerji, N.R.F. Blancher, C. Brachet, S.B. Brown, T.W. Dorsey, P. Gajdeczka, R.T. Harmsen, J. Hicklin, S. Kashiwagi, G.R. Kincaid, A.T. MacArthur, I.C. Medeiros, Y.A. Metzgen, M.L. Parkinson, J.E. Ramirez, M. Rossi, J. Seade, Y.V. Sobolev. Secretary’s Department: A.S. Linde, Deputy Secretary; P. Gotur, A. Mountford, B.A. Sarr, T. Turner-Huggins. Technology and General Services Department: G.F. Brookings, M. Dolbec, R.S. Franklin, E. Kahn. Western Hemisphere Department: C.M. Loser, Director; M.E. Bonangelino, Deputy Director; P.D. Brenner, M. Cortes, A. Espejo, J. Gil-Diaz, O. Gronlie, W.C. Keller, E.C. Offerdal, J. Thornton, M. Zermeno. Office of the Managing Director: C. Salmon, Personal Assistant; D.A. Citrin, T.F. Murphy, V.E. Wertman. Advisors to Executive Directors: J.M. Abbott, J.C. Estrella, M.F. Melhem, Y. Patel, S. Rouai, K. Sakr, I.M. Woolford, M. Yanase. Assistants to Executive Directors: A.S. Al-Azzaz, V. Dhanpaul, I.C. Ioannou, A. Jacoby, A. Kapteijn, S.K. Keshava, E. Kornitch, K. Kpetigo, D.H. Kranen, Liu Z., J.A.K. Munthali, L. Redifer, C.-P. Schollmeier, J. Sigurgeirsson, Siti Mariam Mohd. Yusof, A. Sutt, Vongthieres O., M. Walsh, M. Yépez.

1. PILOT PROJECT FOR VOLUNTARY RELEASE OF ARTICLE IV STAFF REPORTS AND OTHER ISSUES IN FUND TRANSPARENCY—REVIEW

The Executive Directors considered a staff paper reviewing the pilot project for the voluntary release of Article IV staff reports and other issues in Fund transparency (SM/00/190, 8/10/00; and Sup. 1, 8/11/00).

Mr. Shaalan and Mrs. Farid submitted the following statement:

> On the pilot project and the voluntary publication of Article IV reports, we still believe that, over time, the candor of Article IV consultations could be affected by the publication of staff reports. We continue to believe that starting down this path will inevitably, even if slowly, affect the quality and candor of the consultations and Article IV staff reports. The damage we are concerned about is a subtle process that would not be clearly identifiable through the pilot project we have conducted. We realize, however, that since publication has been allowed through the pilot project, it is difficult to turn back the clock. Our concern now is to minimize the negative effects that would emanate from the adoption of a new publication policy.
>
> In the interest of continuing to conduct effective surveillance, we need to find ways to guard against a loss of confidentiality in Article IV discussions and also to make sure that staff reports do not become negotiated documents. While staff express these concerns in the paper before us today, they do not put forward concrete proposals to deal with them, except for their injunction that requests for deletions should be limited only to market sensitive material. Of course, views will differ on what is market sensitive, as shown in annex I in the background paper where we see that agreements for deletions and modifications beyond exchange rate and interest rate issues have been granted. There obviously were also requests that were denied. In our view a very narrow definition of market sensitivity may prove to be difficult to apply and would not accord the authorities' views sufficient weight. Country authorities are better placed than staff to decide on what is market sensitive. We would also add that applying a uniform deletions policy, as stated in Box 2 on the proposed Principles for the Fund's Publication Policy, is easier said than done. Here it is well to note that, according to the staff paper, there were pressures during the pilot project, from the industrial countries, in particular, who have been strong promoters of transparency, not to include certain information in the staff reports and to add material or to recast the policy discussions given concerns for public impact. While this pressure appears to have been resisted in some cases, it indicates the potential for problems in the future, including different treatment among Fund members. We need to accord more attention to these issues.
>
> The finding that publication is resulting in a shift in the drafting of Article IV reports to reflect audiences in addition to the Executive Board also

points to the real risk that the nature and integrity of the reports could change over time. If this were to happen, the Fund's surveillance function could be seriously impaired. Alternately, the Board may find itself searching for a vehicle other than the staff report to better perform its role in Fund surveillance.

If agreement permitting the publication of Article IV reports is reached, it is imperative that we uphold the voluntary basis of the proposed Fund policy on the publication of Article IV reports. Here we would strongly endorse the statement in para 57 to the effect that the operational implications of the policy "would be that, while the Fund would allow voluntary publication, it recognizes that for some members this will be a longer term objective." We also caution against diluting the content of this statement by the references made to "voluntary and encouraged basis" of publication policy. This can easily translate into placing pressure on countries that are reluctant to publish their reports.

We are particularly concerned with the implications of the statement in para 4 that "the Fund, would , in the conduct of its surveillance and support for programs, encourage members to develop internal processes to benefit from transparency, including more open relationships between government and civil society to ensure that domestic dialogue is well informed." The operational implications of this statement are not altogether clear. We fear that it could in effect lead to an overloading of mission staff with objectives beyond their competence and expertise. While the development of the "internal processes" referred to here are desirable in their own right, they lie outside the Fund's mandate and expertise.

We remain most uncomfortable with the publication of medium term projections and vulnerability assessments and indicators. Staff note that there is a tension between the need to provide more in depth vulnerability assessments in staff reports and publication. While such assessments are useful for Fund surveillance and for the country authorities, their publication could trigger unforeseen reactions, particularly in the case of smaller countries. For vulnerability indicators, in particular, it was our understanding that more work on their usefulness would be needed before their publication would be contemplated. In fact, in previous Board discussions the point has been made by many Directors that they could be counterproductive if published. We would therefore prefer to exercise caution at this stage and would suggest placing vulnerability assessments and indicators in a separate annex outside the Article IV report if the intention is to publish the report. We would note here, that para 24, which deals with the vulnerability assessments, does not put forward a proposal to deal with the tension referred to. It simply concludes that "staff reports should continue to discuss vulnerability and other sensitive issues and the authorities should rely on the right to request deletions from published versions of reports on the basis only of market sensitivity."

Let me turn now to the issue of publication of UFR reports. First, notwithstanding the completion of the pilot project for the publication of Article IV staff reports, in our view the impact of this experiment cannot be considered to have been fully played out at this stage. This consideration, coupled with the fact that once we authorize publication of UFR stand alone reports, it will not be feasible to reverse the decision even if we have good reasons to do so, it seems to us that the prudence would entail refraining from going down this path before we accumulate more evidence on the impact of the policy with regard to Article IV reports. Adding to our concern is our uncertainty with regard to the implication of the second bullet in para 28 which states that "if the Board were to agree with the staff proposal to publish UFR staff reports, that the principles on publication policy include a statement that the UFR staff report provide an assessment of risks consistent with the recommendation for use of Fund resources." This would seem to imply a deliberate change from current practice in writing UFR reports to accommodate publication. We would appreciate clarification from staff on this point, particularly since it is imperative that the Board in forming its decision on a Fund program be fully apprised of all elements of risk in a full and comprehensive manner. Again we would seem to be heading to a shift in the drafting of reports similar to the one already observed with respect to Article IV reports published through the pilot.

Still on UFR reports, we are concerned that their publication as well as that of TMUs with policy content would lead to increased tension on where to present sensitive information. We may be creating a situation where the frequency of resorting to side letters would increase. Staff views would be appreciated.

Another question we wish to address to staff relates to the final sentence in para 34, where it is noted that "in the staff's view, the safeguards recommended for the publication of surveillance documents would need to be put in place in advance of authorization to publish UFR reports." Could staff clarify what is meant here with regard to the safeguards and what is involved in putting them in place?

On policy papers, we would favor maintaining the present system while agreeing to the suggested proposal that the cover note to staff policy papers indicate staff's preliminary recommendation on publication of the policy paper. At the end of the Board meeting, Executive Directors would then express their views on the proposal. With regard to the publication of policy PINs, we would also favor keeping the present system which is based on whether a policy issue had reached completion or alternately whether the discussion had reached a stage of sufficient development that informing the public would be useful.

On the other issues raised in the paper, specifically in Box 4, we can go along with staff's proposals, with the exception of the voluntary publication of SMP staff reports. On the latter, the concerns expressed above with regard to the publication of UFR reports would apply.

Ms. Lissakers submitted the following statement:

The staff reports prepared for today's discussion highlight the dramatic strides the Fund has made in the area of transparency and reflect the growing acceptance, even embrace, by the institution and by its member governments of the principles of openness in economic policy making. Staff is proposing a number of steps now to secure the gains already made and to further advance and refine our approach to public information about the institution's activities and policies. This chair can support most of their recommendations. However, some staff proposals fall short of what is necessary to achieve the degree of openness my authorities think this institution and its members should manifest in the 21st century.

Our experiment with voluntary release of Article IV reports appears to have been a resounding success. Publication has delivered most of the hoped for benefits while few of the feared negative effects have materialized during the test period. Participation in the pilot has been more than sufficiently deep and broad to provide a credible test. The follow-up evaluation appears to have been thorough, detailed and fair in surveying the views of staff, member governments and users of the information. In short, a thoroughly professional job. My compliments to PDR and other staff in charge of conducting the pilot.

As noted, the prospect of publication appears to have had largely positive effects on the quality of Article IV consultations, stimulating greater interest and better preparation by some governments and providing the same or even more candor. Furthermore, as noted in paragraph 15, publication has had the desired effect in many emerging market and developing countries of increasing public awareness of complex policy issues, improving the public debate and enhancing the credibility of authorities. The prospect of publication also appears to have sharpened staff's pens, leading to clearer presentation and differentiation of views on key issues, greater rigor of analysis and more attention to the quality of data presented. I was also particularly interested and heartened to see that staff did not shy away from including vulnerability assessments in reports to be published and further that publication of these vulnerability assessments did not appear to rattle markets. It is important for the effectiveness of surveillance that staff continues to be rigorous in its vulnerability assessments even if these will be published.

The report notes that in a few cases governments may have been less forthcoming on sensitive issues, although, this appears not to have had a material effect on the quality of consultation. And it is, of course, possible that governments will have second thoughts the second time around. But in the absence of any convincing evidence (see footnote 17), I see no reason to retreat from the overwhelmingly positive assessment in the staff report.

Like staff, I am surprised that most of the problems concerning publication have arisen in industrial country Article IVs, where a few countries apparently have pressed for editing changes that border on changing the policy message. I do not believe my government has been one of the sinners, but for the industrial countries as a group, shame on us. Since we have been the leading proponents of transparency, we have a special responsibility to live up to the standards we espouse for others.

It is probably true, as the staff paper suggests, that relatively benign global economic conditions have made members more willing to experiment with publication of Article IV reports, so we have been lucky in the timing of our pilot. But I hope and believe that members have gained sufficient comfort with the higher level of transparency and recognition of the direct benefits to themselves so that the commitment to forge ahead will withstand any turn to a harsher economic climate.

Given the overwhelmingly positive results of our pilot and the few problems identified, I can only conclude that we should proceed to make the voluntary publication of Article IV reports a permanent feature of Fund policy, with periodic reviews to address problems that may arise.

I strongly support publication of UFR staff reports, including candid assessments of risks consistent with the recommendation for use of Fund resources, provided the latter does not mean masking potential problems. Publishing UFR staff reports would have many of the benefits associated with the publication of Article IV reports. And, as noted in paragraph 30, it is also incumbent on the Fund to provide more information in UFR cases at a time when we expect the private sector to step up as well. The private sector is more likely to be forthcoming and cooperative when investors and creditors think they have all the facts in hand and know how the Fund and the country assess the situation and what steps they intend to take and why.

There would seem to be little downside to publication since as noted in paragraph 31, UFR reports tend on the whole to be more optimistic than stand-alone Article IV staff reports.

While my authorities and I would prefer to have a presumption of publication of UFR staff reports, we can go along for now with publication on a voluntary basis, as a first step.

We do not think staff proposals go far enough with regard to publication of underlying UFR documentation, specifically LOIs/MEFPs, TMUs and PRGFs, however. While the presumption of publication adopted last year has stimulated a significant increase in publication of these documents, a number of countries have still not published, and a few have published incomplete LOIs. The overwhelming logic remains that a government undertaking a set of critical policy commitments on behalf of the nation should publicly disclose the nature of those commitments. Without disclosure, ownership remains in doubt and, hence, also the government's ability to deliver. We proposed last year, and continue to believe that release of these documents should be mandatory, with some leeway on timing. Almost half the Board supported our proposal then. Staff should not shy away from testing whether the Board would now support mandatory release of LOIs/MEPFs and TMUs as well as PRSPs. And although TMUs, in combination with other documents, should provide the full picture of arrangements, I am not fully persuaded by staff's case for withholding publication of the text of Fund arrangements.

The same logic applies to LOIs or their equivalent in the case of Staff-Monitored Programs. I am surprised that staff goes in the opposite direction on SMPs, proposing not even a presumption but only voluntary publication. I do not see the rationale at all. One could argue that publication is even more important in the absence of conditional financial tranches to encourage discipline and commitment. As an aside, let me say that I think our whole approach to SMPs needs a thorough Board review and rethink. May be a suitable subject for independent evaluation?

PRSPs, as the staff paper notes, are intended to grow out of a participatory process, thus publication is integral to their nature. Publication should be mandatory. However, the staff's proposed approach of assuming publication and not recommending Boards go forward without that, seems an acceptable alternative. I-PRSPs, JSAs and interim assessments should also be made public. We strongly support staff's proposal in paragraph 45 that I-PRSPs and PRSPs be posted on the website after circulation but before the Board discussion, and we think consideration should be given to releasing JSAs at this time as well. While posting these documents on the IMF web page is important, it is also important that governments make the documents available in their countries on a timely basis.

I agree that we must also publish waivers of performance criteria and instances of non-performance, as silence on this would be directly misleading. In the absence of such public notice, investors and others would have every reason to think that conditions of a Fund program have been fully met.

I agree fully with staff that our policy on deletions must be uniform and rigorous, across countries and across classes of documents. As staff details, recent practice has not always met this standard. There have been troubling deletions from certain published LOIs, for example. I agree that the policy currently in place for deletions from Article IV PINS and Article IV staff reports published under the pilot project be applied uniformly to all other country papers to be published. Deletions should be minimal and limited almost exclusively to highly market sensitive information primarily related to exchange rate and interest rate matters.

Regarding summings up and Chairman's Statements, I agree that some streamlining might be desirable. However, I am not prepared to agree at this time to discontinue summings up of Board discussions on UFR. Given the importance of countries getting a clear view of Board concerns, my preference would still be to have summings up, rather than Chairman's Statements, be the basis of a PIN. I am prepared to see how the new approach to Chairman's Statements, which I read as a proposal to toughen them up, plays out. If we conclude after six months or so, that the Statements provide a balanced account of the Board discussions, then I would be prepared to drop the summing up. Until then, I would prefer to stick to the experimental dual track approach, cumbersome though it is.

Publication of PINs following Board discussions of Article IV reports is an important feature of the Fund's move to transparency. While we find the proportion of PINs issued in these cases encouraging, I am concerned that PINs are not provided in all cases. There should continue to be no exception to the rule of having a public Chairman's Statement accompanying Board approval of UFR.

On Fund policy papers, we are strongly of the view that these should be made public in a timely manner along with a PIN summarizing the Board discussion and conclusions. The staff's proposals to refine current practice, including that it provide a cover note indicating staff's views on the suitability of publication of the document and of a PIN following the Board discussion, is one we can accept. Of course the Board retains the right to publish a policy document even if the staff has not recommended it.

I agree that it is important for the Fund to clarify its publication policy and to streamline our approach. I can agree to the specific proposals contained in sections I-VI of Box 2. However, I cannot subscribe to the policy description in the first bullet. First, it states that all publication is on a voluntary basis while this chair favors going from voluntary to mandatory publication of some documents. But even as a reflection of current policy, this statement is misleading in my view. By focusing on the exceptions and constraints, the statement gives the impression of an excessively cautious and passive approach to transparency belied by the Fund's actual stance that is now pro-active and pro-publication. This formulation might have been accurate two years ago, but it is not an accurate reflection of the Fund today. It gives no indication, for example, that there is a now a presumption of publication of certain documents. Nor does it reflect that the Fund itself now has a firm policy of issuing public statements on UFR, and policy papers, for example. There is no indication that we have a mandatory policy on publication of cases of misreporting.

I agree that not all members are in the same place on transparency, and our approach to publication must be sufficiently flexible to take account of our diverse membership. I think our pilot project on publication of Article IV reports has been exemplary in that regard. We have taken and will continue to take a reasonable line; ownership in this area is as important as in any other. But the opening statement in Box 2 leans over backward so far it falls over. As such, it diminishes the enormous strides the Fund, and its members have made toward greater transparency in recent years.

We urge staff to come forward with proposals on post-program monitoring, publication of FSSAs and publication of documents in languages other than English as soon as possible. On the last issue, I think it would make sense to publish PRSPs in languages other than English, given that these documents are supposed to be in the public domain, are to grow out of a public debate in the country, and English is not in common use in many PRGF countries. Of course, if these documents are genuinely the product of the country in question, one would assume they would be drafted in the language commonly used for central government documents. In any event, these important documents should be accessible to the general public of the country concerned and the Fund should help make that happen. This does not necessarily mean the Fund should do it. There would surely be more value added if the Bank and Fund and donors helped countries which do not have them establish their own translation units. Or something could be done on a regional basis.

Finally, the Board agreed in last year's discussion of release of archival material that staff should come forward with additional categories of material that could be released under the 5-year rather than the 20-year rule. We look forward to discussing such proposals in the Board no later than next spring, when further liberalization of the archives policy is slated for review.

Mr. Taylor and Mrs. Ongley submitted the following statement:

As Mr. Fischer said (at the recent Board Retreat), "Even the most advanced proponents of transparency have agreed not everything should be published." As an advanced proponent of transparency, we agree with this judgment.

In some respects, we have a broader view of transparency than that traversed in the staff papers. Fund analysis depends to a very large extent on information provided by members. The flow of information, and Fund analysis, moves through staff/management to the Executive Board, and to member governments, and potentially to legislatures, the press and the public. Some key issues in this sequence concern:

Are members always sufficiently candid with staff under existing publication arrangements, and could more extensive publication jeopardize even the existing degree of candor?

Can countries be confident that information provided on a confidential basis to the Fund will always remain confidential?

Are staff/management sufficiently candid with the Executive Board? There have been recurring instances when the Board thinks not (although the successful resolution of the side letter issue was a major advance in this regard).

Does transparency concern merely publication to the press/public, or is there an important aspect of transparency between countries and other members of the Fund? We, at least, have always valued the government-to-government discussion of issues of mutual concern through the relatively intimate medium of the Fund.

These important questions need consideration in the context of a fully-developed policy on transparency.

Turning to the specific issues covered by the staff papers, we agree there is a need for significant simplification and streamlining, and think the staff report moves broadly in the right direction in this regard – but with the qualifications below.

If the weight of the membership wishes to publish on a voluntary basis, we will not object. But we cannot accept the proposition that non-publication be confined exclusively to countries at earlier stages of development (as implied in the statement in Box 2).

We must say, however, it continues to be the predominant view in our constituency that publication of Article IV reports engenders a serious risk to the degree of candor achieved between the member and the Fund. We still doubt that the role of confidential advisor, which we greatly value, can be fully reconciled with publication. This tension is likely to heighten with the inclusion of vulnerability analysis in Fund surveillance and staff reports. We are concerned this could limit the frankness of discussions between country authorities and the Fund in the Article IV process. Furthermore, evidence in the staff report points to the difficulty in moving to a level playing field, with deletions being “concentrated in the industrial country cases”.

Perhaps the most difficult issue is the question of publication of Use of Fund Resources staff reports. If written properly, these would be amongst the most sensitive Fund documents; and where we have the greatest concern about loss of candor in the material on which the Executive Board is expected to make decisions.

As the staff report rightly points out there is also a tension in presenting the balance of risks. An eye to publication could create an incentive to adopt an inappropriately positive tone. On the other hand, emphasis on the risks to a program may invoke reactions that could jeopardize the success of the program. The staff must therefore be vigilant in appropriately pitching the tone and discussion of balance of risks.

On the other hand, there are quite strong justifications for seeking publication: publication should help attest genuine country ownership, vital as the Fund's balance sheet is being committed; publication could provide an additional means to improve uniformity of treatment in program conditionality; and, given broad moves to publish across the range of Fund documentation, it would be somewhat anomalous if UFR reports were the only class of document not published.

In developing our policy on publication, we have always moved forward in a step-by-step way, and this has stood us in good stead. Our position on this matter is necessarily an "on balance" one. We could agree to publication with a lag of, say, six months. Or we could agree to a trial of the publication of UFR staff reports on the basis that: there is a substantial consensus to do so; publication is strictly voluntary (that is, not "encouraged") and the policy on "deletions" is somewhat more inclusive than proposed by staff (we will expand on this point below).

We can agree to the abandonment of UFR summings up, but only on the basis that: the nature of the chairman's concluding statement does not change—that is, there is no attempt to adopt the substance of the summings up, re-labeled as chairman's statements; and there is a continuation of the practice identified in footnote 72 of the staff report; that the relevant Executive Director will continue to have the right to "object to publication, in which case a brief factual statement would be released instead."

With the publication of both Article IV and UFR staff reports, the framework within which we operate—staff's publication principles—will be central to providing sufficient checks and balances to help guard against the realization of our concerns.

We welcome the proposed move to a uniform deletion policy. A firm policy and its broader application will be important in ensuring consistency of treatment, which the background paper demonstrates has been sadly lacking to date. We have three main points.

The deletion policy should continue to include market-sensitive information (as currently defined) in the areas of the exchange rate and interest rates, but should be somewhat expanded to embrace the concept successfully developed for side letters—that is, matters whose publication would directly undermine the authorities' ability to implement the program.

In addition, in the case of UFR staff reports, there is the issue of the financing assumptions, where we often make assumptions regarding levels of exceptional financing, private sector rollover rates, and the like. It is difficult to know how this information might be interpreted. One could argue it would be catalytic, but equally there is a concern about precipitating capital flight. It will be important that there is clarity and consistency about the inclusion or exclusion of financing tables. We would prefer the latter.

In the case of LOI/MEFP documentation, the policy should be that there is publication in full, but that material that could directly undermine the authorities' ability to implement the program may be published with a delay.

We agree with the staff proposition that corrections and deletions be circulated to the Board. The issue of timing here is not explicitly addressed. It would seem appropriate that this be done prior to the Board meeting.

Ideally, Article IV and UFR reports should be published at the earliest possible time following the Board meeting. We therefore agree information updates can be managed through the issuance of staff supplements or statements. In cases where a delay is warranted, any new policy development can be addressed in the authorities' right of reply.

We support the current publication of Board papers on policy issues. While we support the adoption of principles or criteria for the publication of these documents, we would not favor the application of strict rules. Rather a fair degree of flexibility or pragmatism will continue to be needed given the sensitive nature of some of the material discussed.

We agree that many of these issues should be reviewed in one year, but we should also keep in mind that this will be an ongoing, evolving exercise. It will be important to continue to draw lessons and identify potential problems. Of course, the real test will be whether the guiding principles for publication hold up in the times when the sun isn't shining so brightly – is there symmetry in the good times and the bad?

The voluntary publication of ROSCs should be elaborated into a policy where publication is presumed, but only after the authorities have had a sufficient period of time to develop a strategy in response to the ROSC. This could then be published with the ROSC much like the 'right of reply' in the publication of Article IV packages.

We support the current policy of publication of PINs following Article IV consultations.

We believe consideration should be given to publishing PRSPs in languages other than English, taking into account resource costs.

Finally, the Fund should also take into consideration some of the evidence presented in the paper on the need to simplify the language used in publications given many readers will not be economists and English will not be the first language of many readers.

Mr. Yoshimura and Mr. Yanase submitted the following statement:

We welcome today's discussion on transparency. It is encouraging that after one year the pilot project on publication of Article IV staff reports has been welcomed by many, and there has been no observable deterioration in quality, including level of candor—which was a significant cause of concern when the pilot project was started. Since the cooperation of many stake holders is vital for the effective operation of the Fund or the smooth implementation of member countries' economic policies, these stake holders—not only member authorities—need to have abundant and correct information. It is for this purpose that an active publication policy is desirable.

This chair has been a strong supporter of a more transparent Fund. It should come as no surprise that we support the staff's proposals. Below, we comment on the issues for discussion presented in the staff paper.

First of all, we support the proposed general publication policy for country papers. The principle of voluntary publication is vital in the case of country papers. While publication contributes to economic policy making and implementation in member countries and should therefore be encouraged, the final decision as to whether or not to publish should be the country authorities' since the benefits of publication vary from country to country.

Standardization of policies and procedures should also be encouraged, as it is important for effective and efficient publication.

We support the voluntary publication of Article IV staff reports and staff reports for use of Fund resources (UFR).

On Article IV staff reports, the experience of the pilot project justifies continuation of the current publication framework. Japan participated in the pilot project and the experience was a positive one. We did not find any signs of deterioration in the quality of the staff report. On the contrary, more of our government agencies participated in the Article IV process because the report would be published. Consultation discussions became more intensive. We think this contributed to the quality of the report.

In moving forward with the current policy, needless to say, it is important that staff reports accurately reflect authorities' views and that they strike an appropriate balance in describing the staff's own views and those of the authorities'.

The release of UFR staff reports would have a much stronger impact on the Fund's decision making process than the release of Article IV staff reports since there is much greater interest in the outside world in UFR cases. The publication of UFR staff reports would disclose the basis of the Executive Board's decisions. The behavior of Executive Directors, management, and staff would be closely and critically monitored against what is in the reports. Better public presentation would become necessary to protect our credibility. For example, if a country is in a difficult situation and the staff admits there is a risk in the country's program, then staff would need to fully explain why they recommend approval of an UFR request. In the same vein, the Board would be required to issue a persuasive Chairman's statement to justify its decision. While this would not be easy, we believe these changes are desirable for the Fund to improve its operations, and we therefore support the voluntary release of UFR staff reports. Nonetheless, we recognize that we would become subject to further public scrutiny and that we would need to adjust ourselves to the new reality.

Some authorities might feel that it would be difficult to persuade markets if staff reports are strongly critical. In such cases, the authorities in question should have the right to refuse publication. In the case of UFR staff reports, the exercise of such a right should never be discouraged or disturbed.

We support the staff proposals on publication of other documents, with the understanding that a review will be held after a year. While we believe that improved transparency will contribute to the better functioning of this institution, we do not want to sacrifice the quality of documents. If the quality of documents deteriorates as a result of publication, then this issue needs to be revisited promptly.

Lastly, we fully share the staff's view that in moving forward, a "simplified and broad-based publication policy aimed at clearer communications" and "organized presentation of information" will be essential to ensure that the benefits of improved transparency will be realized. Similarly, the possibility of releasing documents in languages other than English should be explored, although there are many difficult issues that need to be resolved, including but not limited to the cost. For PRSPs, the need to publish in the language of the country is particularly high, and such publication should be strongly encouraged. This does not mean, however, that the Fund has a responsibility to publish in that language. Given the principle that PRSPs are country-owned, countries should decide on and implement publication in the languages they consider essential.

Mr. Faini submitted the following statement:

We welcome this opportunity to review the Art. IV pilot project and, more generally, to address again the issue of Fund transparency. This is an important theme that will constitute a crucial component of the Board's report to the IMFC.

It has often been said, and rightly so, that transparency should not be an end in itself, but a means to achieve a number of goals, such as strengthening the accountability of the Fund and improving the efficiency of financial markets. More generally, in a second-best world, the benefits of transparency should not be taken for granted. Greater transparency by the Fund may undermine confidentiality and the candor of discussions with members. It may also destabilize markets by releasing alarming information. At the same time, however, better-informed markets are less likely to be surprised by "news" and less prone to exhibit herd-like behavior. Feeding markets with information can provide a strong antidote to financial volatility and contagion.

It was the difficulty to define a priori the net balance between the benefits and the costs of greater Fund transparency that was at the heart of the concerns expressed by a number of Directors in previous discussions and that led to the establishment of the pilot project with a view to gathering some valuable evidence on the impact of transparency. The pilot project has now run most of its course. Staff should be complimented for trying to distill in a clear and comprehensive manner the lessons of this experiment, while also bringing to the attention of the Board a number of well-thought out proposals.

Staff proposes that the Fund adopt a general policy statement on voluntary publication. While we can agree with the thrust of this proposal, we believe it is essential to emphasize that: The policy of voluntary publication applies to country papers. For other documents, the Board may set different standards. Publication is presumed for documents stating a government's policy intention. In addition, the policy statement on publication should have a preamble stating the rationale for transparency that underpins such a policy. Box 2 should be amended accordingly.

On balance, staff concludes that the case for a policy of voluntary publication of Art. IV reports is strong. Publication of surveillance reports has raised many concerns, related to the impact of publication on the quality of the reports, their candor, as well as on the confidentiality of staff discussions with the authorities. In addition, the concern was raised that the pilot project would be insufficiently representative of the Fund membership and would not therefore allow staff and the Board to come to a well-informed decision. Broadly speaking, these concerns have proved to be unfounded. First, the pilot was characterized by a broad participation that went well beyond even the most optimistic initial expectations. By and large, therefore, it provides valuable and significant evidence for a well-informed decision by the Board on the next steps to be taken on transparency. Second, the concern that publication may detract from the quality and candor of the report or undermine the confidentiality of the discussions also proved largely unwarranted. There is indeed little or no indication that this has been the case. On the contrary, the prospect of greater public scrutiny seems to have strengthened the incentives for preparing high quality and candid reports. Similarly, the coverage of the staff reports has not been negatively affected by publication: published staff reports seem to include proportionately more views on highly sensitive issues such as interest rates or exchange rates. Admittedly, as recognized by staff, the risk that Art. IV reports may become negotiated documents cannot be neglected. We believe however that the proposed guidelines appear to be adequate for addressing this potential problem. In any case, these guidelines will need to be regularly reviewed by the Board and, if the need arises, adequately strengthened.

The additional concern that publication could be particularly damaging to small countries has also proved to be largely unjustified. The fact that small countries have reacted quite favorably to this initiative indicates that typically it is the lack of information that penalizes them. At first blush, this finding may seem surprising. However, we only need to recall that in a world where market participants face relatively large costs of gathering information on small economies, they will be less able to clearly distinguish between good and bad performers. Investors will tend therefore to bunch small countries into broad groups, meaning that even good performers will be vulnerable to changes in investors' sentiments. It is precisely because the Fund is the only or the main source of information for these countries that greater Fund transparency would contribute to market efficiency, by disseminating better and more timely information, by allowing sound performers to reap the benefits of their policy stance, and by strengthening the incentives for the adoption of sound policies.

As for country size, it is unlikely that the benefits of transparency are positively correlated with per capita income. The staff formulation that the policy of voluntary publication "recognizes the different stages of institutional and political development of Fund members and, hence, their ability and willingness to move forthwith to greater transparency" is somewhat ambiguous in this respect. The existence of different stages of institutional and political development of Fund members should be clearly distinguished from their stage of economic development. There is no reason indeed to believe that the countries more likely to benefit from transparency will typically belong to the middle-high income group. The net benefits of transparency are not a monotonic function of per capita income. Even relatively poor countries will generally benefit from the opportunity to inform markets and private donors about their effort to adopt sound policies. The general statement on publication policy in Box 2 should clearly reflect this aspect.

Overall, these considerations are not meant to deny that for some countries, small or large, rich or poor, the costs of transparency may be perceived to outweigh its benefits. For these countries, however, voluntarism of publication should provide the necessary safeguards, while allowing other countries to take advantage of the perceived benefits of greater transparency.

The case for publishing UFR reports rests largely on similar grounds to those for surveillance reports, though there are some significant differences. First, there is an enhanced concern that for UFR reports the publication of critical evaluations may destabilize markets. However, this concern is largely mitigated, if not fully eliminated, by the consideration that staff and authorities would not generally bring a program to the Board if they had not reached a substantial agreement on policy. UFR reports therefore are less likely to emphasize diverging views on the member's policy stance than surveillance reports. Second, greater transparency is likely to be particularly beneficial in the context of a Fund program. Indeed, for Fund programs to effectively play their catalytic role, markets need to be well informed about the scope and the extent of the authorities' commitments. Knowledge of the economic rationale behind such commitments, which is typically expounded in the UFR report, would help markets to better gauge the strength of the program. The incentive for staff and authorities to design effective programs would most likely be strengthened. On balance, therefore, the case for transparency seems stronger for UFR reports than for Art. IV reports.

Admittedly, the pilot project does not offer much direct evidence on the impact of publishing UFR reports. However, we should not neglect that a significant share of the pilot (25 percent) was made of combined UFR/Art. IV reports. Moreover, staff has brought additional evidence to bear on the issue by looking beyond the pilot and comparing surveillance and UFR reports. Altogether, therefore, there is sufficient evidence to adequately guide the Board determination on this issue. A number of staff's findings are particularly worth mentioning in this context. First, published combined reports tend to be more informative compared to those that have not been published. Second, the presence of market sensitive information is less pervasive in UFR than in Art. IV reports. Third, the recent experience with PINs is telling. From table 9 in the background paper, we learn that in 1997-98 program countries had relatively fewer PINs than non-program countries, had longer publication lags, and requested more modifications to their PINs. By 1999-2000, the situation has been fully reversed: 92 percent of program countries had published a PIN (against 80 percent for non-program countries), the average publication had dropped to 13 days (the same for non-program countries), and the percentage of modifications had fallen below that of non-program countries. Clearly, these data illustrate a situation where program countries used to be quite concerned about the potentially negative impact of transparency but have now found on average that the benefits of such policies overwhelm their costs.

Staff proposes a unified policy in this field. This is a welcome development to the extent that it may ensure a more even-handed treatment of countries and limit the scope for unjustified requests for deletions. Yet, there are still many gray and/or unresolved areas. Let me mention some of them. In the past, a number of Directors have expressed the view that performance criteria related to international reserves would offer an easy target to speculation and should therefore be treated as market-sensitive information. It would be interesting to know the staff point of view on this matter. Similarly, the definition and the treatment of political sensitivity is bound to be controversial. The emphasis on broad program ownership would nonetheless dictate that all the aspects of the program be fully disclosed, including those that may prove to be controversial and/or that require the action of non-governmental institutions such as legislative assemblies. At any rate, incomplete documents should not be published without the consent of the Fund.

According to staff, the emphasis on greater transparency may lead to growing tension with the need to provide more in-depth vulnerability assessment. We agree with staff that moving to a two-track approach, where a vulnerability section would be added to the report without being made public, would not be wise. It is important to stress that vulnerability indicators, such as reserves and debt-related variables, are not per se market-sensitive information. They become so if policymakers try to hide such information to markets. A different issue is whether such indicators should be simply appended in a table of the report or thoroughly discussed. Our view has always been that the discussion of vulnerability indicators should be fully integrated in the core of the Art. IV reports. Simply appending such indicators to the report is not very informative. It may even be more destabilizing than presenting a thorough discussion of their evolution, which would allow staff to provide markets with a better understanding of the meaning and the statistical shortcomings of such indicators.

We agree with the proposed policies in Box 4, with one exception. We feel that the decision to prepare an internal summing up on UFR should not be reversed. First, this summing up provides a useful contribution to internal transparency. Second, the decision is far too recent to be reversed. While we understand the staff desire to simplify Board procedures, we agree with Ms. Lissakers that it would be preferable to continue with the recently established policy.

Mr. Ondo Mane and Mr. Ntamatungiro submitted the following statement:

At the outset, we would like to commend staff for preparing this comprehensive set of documents that allow us to review the experience in our effort to strengthen Fund transparency. The conduct of the pilot project for the voluntary publication of Article IV staff reports appears to have set a milestone in the improvement of transparency in Fund activities. The main finding that the publication of staff reports under the pilot project has altered neither the candor of the consultation process nor the quality of staff reports is highly encouraging. Lessons learned from the pilot project will certainly be useful for the whole Fund membership, including to non-participant member countries. However, at this stage, it is difficult to make a meaningful statistical inference, which could enable us to move to a mandatory release of Article IV staff reports. First, as pointed out by the staff, without repeating the exercise, it is difficult to have a definitive view on the robustness of the experience. Second, although the pilot project was broad-based in the sense that it covered a large spectrum of developed, in transition and developing economies, participants were not chosen randomly and we are far from having an ideal sampling. It appears that the participation rate was uneven, ranging from 96 percent in developed countries, to some 40 percent in transition economies, and about 25 percent in developing countries.

This indicates the persistence of the concerns expressed by a number of developing countries about the tension between transparency and confidentiality and about the lack of alternative sources of information in developing economies that would put the staff analysis in due perspective. In this context, we support the proposition made by the staff to have staff reports published on a voluntary basis. Of course, mechanisms to provide confidential advice to members should be sought. We also support the proposition to streamline the number of documents, including the discontinuation of the summings up in the case of use of Fund resources (UFR) that are redundant with the Chairman's summing up. Moreover, to ensure that documents receive the maximum diffusion in member countries, we support the proposition to publish in languages other than English. Similarly, it is to be noted that the publication on the Fund website restrains diffusion in low income countries, thereby calling for a more accessible medium. This would foster the participatory process and reinforce ownership and accountability, particularly in program countries.

Generally, we support the proposed publication policy, as it will have a positive impact on the quality of Fund advise while ensuring equality of treatment across Fund membership. However we would like the staff to clarify a number of operational issues.

First, the general principle should be that documents originating from the authorities should be presumed for publication, while the publication of documents produced by Fund staff should be published on a voluntary basis. Such a general rule would bring simplicity to the process. For example, the LOIs, MEFPs, TMUs and PRSPs would be presumed for publication, while staff reports for Article IV consultations and for the use of Fund resources (UFR) as well as REDs would be published on a voluntary basis. More and more REDs include analytical pieces of Fund staff research on key issues that go beyond the traditional description of economic developments. FSSAs also fall in this category, with the particularity that they might contain highly confidential information on individual financial institutions requiring appropriate safeguards. In this context, it is not clear on what ground we should presume that the Joint Stability Assessments (JSAs) of PRSPs will be published. The reason advanced by the staff that JSAs are already published by the World Bank does not appear convincing. The fact of the matter is that JSAs present staff views, which do not engage the responsibility of PRGF/HIPC countries. Accordingly, they should be published on a voluntary basis. Staff clarifications are welcome.

Second, although we see the rationale of publishing staff reports and PINs soon after the Board meeting, more flexibility should be exercised to take account of practical difficulties related to communication problems, translation from English to the language of the concerned country, or the complexity of regional arrangements (the staff documents problems raised in the Euro area that are encountered in other parts of the world). Staff views are welcome.

Third, in the case of HIPC countries, it is not clear whether the HIPC documents (decision or completion points) should be published together with the staff report.

Mr. Wijnholds made the following statement:

In preparing for this meeting, I went back and looked at the reports for our initial transparency discussions, roughly 3 years ago. How far the Fund has progressed! Prior to the start of the Asia crisis—i.e. roughly the time when the Fund was catapulted into the center of a public ‘globalization’ debate, and the start of an intense discussion among policymakers about the foundations of our international architecture—we published only two documents: REDs and, on an ad hoc leakage basis, missions’ concluding Art. IV statements. Now, looking at table 1 in the report, we publish over 20 different types of surveillance and program documents. The website, which was virtually non-existent three years ago now gets over a 100,000 hits a day (almost 37 million a year compared to less than 7 million at end-1997), and has become the primary vehicle for distributing information about our surveillance, programs and policies to the outside world.

Understandably the debate has shifted from deciding which documents to publish to discussing the limits of transparency. Specifically, what safeguards can we establish to preserve the candor of discussions with authorities and how can we preserve the integrity, and quality, of the reports? This candor/transparency trade-off has been recognized from day one. The papers prepared by staff contain invaluable information, both on the survey conducted by the external consultant but also on various studies staff itself has conducted on the content of pre- and post-publication reports, coverage of sensitive issues across different types of documents and possible shifts due to increased transparency. I want to particularly thank Mr. Cox, who despite having had to put on a one-man-show has delivered an admirable performance. I would hope that the Board will be presented with his full report, rather than just the summary, contained in the background paper.

I am in full agreement with staff's main objectives: to define a general publication policy which is consistent, simple, and transparent. This will put an end to the ad hoc policymaking, sometimes in zigzag fashion, and provide clarity to both the staff and the public.

Thus, I am also in full agreement with staff's proposal to have one general policy of voluntary publication of all documents. This has consistently been my position. To continue to have a 'presumption' as a slightly different degree of voluntarism seems sensible in the context of program documents. These are, as staff notes, negotiated documents and are legally owned by the authorities. Thus to not presume ownership of the content of the documents would be strange. My understanding of the operational difference between 'voluntary' and 'presumption' is that, under the latter, inaction by the authorities leads to publication while under the former it would not. Put differently, the cover page of an LOI/MEFP will automatically indicate that publication is intended; non-publication would have to be explained by the ED to the Board.

I also fully support the formulation of a deletions policy to go hand in hand with the proposed publication policy (box 2). I will come back to this below.

I also agree with staff that there needs to be coherence in the stream of documents that the Fund publishes. One suggestion would be to have a section on our website explaining the status of the different documents to be found on the website. More generally, the external website seems to be exponentially growing and could well benefit from the type of housekeeping that has occurred on the intra-net.

I welcome Box 2 as an attempt to establish a single publication policy as opposed to the current patchwork of policies. The Box, together with Table 1, should be added to PDR's "surveillance manual" which is in the works and which will compile all Board guidance into a single document.

The 'teeth' of our publication policy, i.e. the set of incentives which aim to enhance transparency while preserving the candor in the documents, will be in specific modalities, most of which still have to be formulated. This concerns such issues as defining the 'burden of initiative' (does the mission chief have responsibility for publication or do authorities have to take the initiative), the cover pages (does publication have to be announced ex ante, or can it also be done ex post) and cut-off dates for publication. These too should become an integral part of Box 2 in my view. To elaborate a little bit, it is still undecided if, under our new policy a country would be prohibited from publishing an 'old' document. For instance, would a country be prohibited from publishing next year's ROSC or Article IV in four years time if they had not indicated to the Board that they intended to publish at the time of discussion? My understanding from staff is that they are leaning towards a guideline which says that all voluntary publication has to be known to the Board at the time of discussion. But this could again lead to Nigeria/Kenya type situations where due to miscommunication publication is precluded even though it would be deemed highly desirable by the Board. We have to come back to this.

I have three specific comments on Box 2. First, I believe the first bullet—the "policy statement"—is too narrowly defined. It seems to imply that the only reason that a member would not be fully transparent is related to its stage of institutional and political development. That is only part of the story. There are also legitimate concerns about market sensitive information which could put a constraint on the degree of transparency. Indeed, does the staff report itself not indicate that it is the industrial countries which have been most active in correcting and deleting information in staff documents. It would seem strange to argue that Canada, Greece, Ireland, Japan and the UK, i.e. five of the six countries that deleted segments of their Article IV reports, did so because of their institutional or political development. The policy statement should in my view consist of four main elements: (i) publication is voluntary; (ii) we try to be as transparent as possible; (iii) in doing so we take into account different stages of institutional and political development, and (iv) we take into account the need to delete highly market sensitive information.

My second comment concerns roman numeral II in which it is noted that staff reports "would include assessments consistent with the recommendation for use of Fund resources". This seems superfluous given that the staff would never recommend to the Board a program which they thought to be too risky. One could even misinterpret it to say that staff reports should be careful not to be too alarmist, which is a slippery slope to saying we should put a positive spin on the documents. We could either delete this sentence, or we could add a sentence saying that staff should be careful not to put a positive spin on reports. This would clarify what I believe to be the intention of the sentence.

Third, and perhaps most importantly, I continue to find the definition of our deletions policy too narrow by focusing solely on highly market sensitive information. It does not reflect political realities, nor the deletions and corrections actually made to staff reports in practice. For instance, it is often useful for the Board to have some political context in which to assess the economic analysis, but publication of different views held by different authorities or, for instance, ongoing policy debates within the government which are not yet public could be embarrassing. Mr. Collins yesterday highlighted UK entry into EMU, which was mentioned in a policy paper. There is no reason to make this public. It is also no exaggeration to say that some mission chiefs are not endowed with an abundance of political sensitivity. Different personalities can sometimes lead to vastly different tones in Fund reports.

At the same time, I realize that any attempt to broaden the deletions policy could open the floodgates. Thus, making operational the political reality is difficult. I wonder though if we should not complement our deletions policy now used for PINs and Article IV's with our side-letter policy which states: 'market sensitive information or material for which the disclosure would undercut the authorities ability to implement commitments'. An important safeguard against misuse of the deletions policy will be the Board itself which, as the report notes, has been quite strict about deletions requests. For the Board to perform its watchdog role it will be necessary for corrections/deletions to staff reports to, ideally, be circulated before Board meetings or very shortly thereafter. Moreover, amendments to staff reports should be circulated in 'redline version', so that the Board can see what has actually changed.

The report is quite positive about the results of the pilot evaluation. Indeed, the degree of participation was a pleasant surprise and the fact that 80 percent of pilot country authorities consider that the impact of publication on candor was neutral is encouraging. However, my optimism about the effects of transparency on the candor in reports is tempered somewhat by the following:

Despite high participation it still amounts to 'only' 36 percent of the membership. It can not be ruled out that the survey results suffer from selection bias. If the other 64 percent of the membership published its report, the results could well be different, and we have to monitor this closely.

The shifts of sensitive information from published documents into non-published ones. The staff report, for instance, notes that there is a shift of sensitive information into TMUs, and a shift of information in LOIs/MEFPs into UFR reports.

The finding that the effect in 80 percent of the cases was neutral also implies that in 20 percent of the cases it was not (even for a self-selected sample). Even if candor is only affected in a handful of cases that should worry us.

The limited participation of countries from Latin American and Asian regions but also, for instance, the Middle East (not noted by staff).

A tendency towards negotiated documents, as staff notes, evidenced by the (statistically) significant increase in the number of corrections to documents, particularly by industrial countries. While this could simply highlight an increased focus on putting out factually correct information the distinction is difficult to make.

The point made by mission chiefs, the media and the market, that the real test is still to come, namely a possible loss of candor over time, possibly enhanced if countries experience an economic downturn.

You cannot delete what is not in the report to begin with (see below).

In this regard, I welcome the fact that staff underscores the tension which exists between our increasing drive towards more focus on vulnerability on the one hand and, on the other hand, increased transparency. I am disappointed, however, that staff so easily dismisses the idea for "vulnerability supplements". The crucial distinction between "vulnerability supplements" and a deletions policy is that the former provides ex ante assurances to staff that they have a channel of confidential communication with the Board, while the latter (deletions policy) still amounts in large part to a game of chance. It is not possible to predict ex ante what Management or the Board will allow to be deleted from documents. The argument that we would be accused of keeping two books, in my opinion, is spurious. We already keep two books by virtue of the fact that we issue a disclaimer on our documents that highly market sensitive information may have been deleted. Moreover, staff itself keeps two books vis-à-vis the Board. For instance, FSAPs, mission briefs, back-to-office reports etc. are all documents which are not accessible to the Board, and thus also not to the public.

To simply say that it is 'essential that frankness is maintained' is not good enough and does nothing to address staff incentives. Both the Whittome report and the recent External Evaluation of Surveillance highlighted the problem of clientilism and lack of candor. I would also suggest that anybody that has seen a back-to-office report or a mission brief or internal staff memo is aware that there are different degrees of candor and Board documents are not privy to the highest degree of candor.

Where does this leave me? Well, I continue to believe that the concept of vulnerability assessments is a useful idea. I also believe that it is still possible to have an atmosphere of confidential briefings in the Board, as evidenced by the MD's lunches, or his one-person per office confidential briefings. These are never leaked to my knowledge (indeed, it almost makes one more enthusiastic about the existence of side letters). If there is insufficient support for the use of special vulnerability supplements, however, I would suggest an alternative way of ensuring that the Board is provided with such analysis. That is, we could simply make such assessments mandatory, for instance, by stipulating the format staff reports are to take. I also see an important role for the new Independent Evaluation Office (EVO), but also for instance for the Office of Internal Audit and PDR itself, in analyzing the degree to which documents are sufficiently candid.

In conclusion, while I have no great qualms with staff's presentation of the survey results, I would be slightly more guarded about the degree of optimism to be derived from them. There is a need to closely monitor possible effects on candor as we move forward.

I cannot support the discontinuation of UFR summings up. We have just established this policy and I have found it fully satisfactory. Contrary to what staff notes, the minutes are not a substitute as an internal record of the meeting as these do not come without considerable delay and are often 40-60 pages long (i.e. not exactly a three page summing up with agreed majorities on the key issues).

I also find it a bit strange that (I) PRSPs would be brought to the Board without staff endorsement. This seems a different way of saying that publication will be mandatory. In my view, Board discussion of PRSPs should be kept independent of publication and this should be voluntary as with all other Fund documents. Given the open nature of the PRSP process I presume that national authorities make their PRSPs public.

There is an urgent need to improve internal communication. There are now often as many as six different people dealing with the publication of documents (in EXR, SEC and the Area Dept., none of which actually has responsibility for final publication). It is almost impossible to track down where the document is in the publication process. Also, we have had several unfortunate incidents with publication of documents in my constituency where the document was released prior to the authorities embargo. One notable case was the release of the entire Article IV package (including an extremely critical analysis of government policy) two days before the presidential elections, despite the express wish of the authorities not to try to influence the election result. I would suggest that there is an urgent need for a "one-stop-shop" for both ED's and Area Departments. That is, a single person should be made responsible for publication of documents and that person should be the contact person for ED's and Area Depts.

Mr. Törnqvist and Mr. Sutt submitted the following statement:

We are pleased to note that the review of the pilot project for voluntary release of Article IV staff reports and other transparency initiatives put in motion about a year ago has provided us with largely positive feedback. Indeed, participation of more than a third of the membership, representing all country groupings, is well beyond even the most optimistic expectations one could have had when the project was launched. Also, despite widely held concerns, there is thus far no evidence about the loss of candor in the discussions; on the contrary, based on the experience in our constituency, the commitment has increased on both sides. The authorities, as well as staff, have put more effort into achieving a high quality of discussions.

These are important facts that lay a strong foundation for the membership and the Fund to proceed further towards greater transparency. In this quest, we think staff is proposing the right approach, which recognizes that not all countries are equally able or willing to move at the same pace in this process. Our following comments will address the issues for discussion in the order they have been listed in the staff report.

As a point of departure, we strongly agree with the staff's proposal of adopting the general policy of publication on a voluntary but encouraged basis. The policy statement outlined in Box 2 adequately captures the key elements of this policy and should be made public. The policy statement also takes an important step towards establishing consistent publication policies and procedures across different classes of documents. Currently there is a lack of coherence in this respect. For example, while the procedures for the publication of Article IV staff reports and related documents, including the authorities' statement, are clear, there is apparently less uniformity with respect to the same procedures in the case of ROSCs.

We also support maintaining the presumption of publication of documents stating the government's policy intentions. Within the context of the general policy, we believe there are good reasons for this. In many respects the Fund arrangements feed into and enhance the domestic economic policy dialogue in a member country. This, in turn, translates into strengthened ownership. There is plenty of empirical evidence to support this proposition within our constituency and, in some of our countries, it dates back well beyond the adoption of the current publication policy by the Fund.

We support the adoption of a uniform deletion policy across the whole range of documents, as long as the case-by-case approach outlined in Box 3 on requests from authorities is maintained, as proposed by the staff. The rule to remove “only highly market sensitive information” should be applied restrictively. Experience shows that authorities tend to have exaggerated anticipation of market reactions. In fact, the argument could be made that markets and media tend to pay too little attention to the views of the Fund rather than too much.

We can accept the proposal of ending the pilot project and shifting to a voluntary publication of Article IV and combined Article IV-UFR staff reports, with the experience to be reviewed in another year. The experience at hand is a compelling argument for an early exit from the pilot phase and establishing the rule for voluntary publication. The proposed review should serve as an ex ante safeguard that additional experience obtained will be used to fine-tune the policy if needed.

We also agree to extend the voluntary publication policy to stand-alone UFR staff reports, with the experience to be reviewed after a year. This stance is supported by the lessons learned from the publication of combined Article IV-UFR reports. The review of the past experience does not substantiate any of the concerns that were raised when the issue of publication was discussed. Furthermore, it is extremely difficult to find a reasonable argumentation for not allowing a country to agree with voluntary publication of the UFR staff report, in the case when its combined Article IV-UFR report is published.

Turning to the issue of impartiality of staff reports, it is imperative for the credibility and standing of Fund reports that they must not become negotiated documents. We believe that the principles of publication of staff reports and other Board documents as described in Box 2 go a long way in safeguarding against this risk. That said, we notice that staff has experienced a “frustrating and protracted process involving voluminous requests for corrections and deletions” in the reports. This is regrettable. At the same time, staff also note that a vast majority of cases relate to factual corrections to staff reports, as illustrated in Table 5 of the background paper. In our view, this pattern also reveals the authorities’ efforts to contribute to achieving a high quality of reports and not only an attempt to negotiate their content. As both the authorities and the Fund are under increased public scrutiny, the staff should be careful that the views of the authorities are correctly reported and factual mistakes are corrected.

It is essential that the primary audience for all staff reports continue to be the Executive Board. However, the transparency initiatives the Fund has embarked upon have made these reports also international public goods. While this does not change the Board’s status as a primary audience of the reports, it has established higher demands for more refined presentations of views expressed by the authorities.

We support the suggestions outlined in Box 4. But we also look forward to the possibility to discuss the publication policy of the FSSA reports and other outstanding issues, without which the general framework of publication policy remains incomplete. While presentation of information in languages other than English would probably enhance internal processes to benefit from transparency, this may well prove excessively expensive.

We agree that the question raised by the staff in paragraph 60 is relevant. However, we believe that this problem could be handled within the framework of the proposed deletion policy, which would also cover the UFR cases.

Mrs. Hetrakul and Mrs. Siti submitted will following statement:

The Fund and its members are fast moving toward increasing transparency of their respective activities, in this regard, via publication of Fund, members and staff documents. In the process important decisions were made taking into consideration the role of the Fund as a confidential advisor on one hand and the increasing requirement to be more open to public scrutiny on the other. Indeed greater transparency lends itself to improved benefits to both Fund and its members in particular, but the drawbacks warrant equal careful consideration.

We welcome staff efforts in preparing the paper before us today, including the review by the external consultant on the pilot project for the publication of the Article IV staff reports. We commend staff for these efforts, which has turned out relatively costly at an estimated cost of five staff years but important in the process to decide on the next step of action with regard to increasing transparency via greater publication of Fund documents.

The pilot project was initiated in response to, among others, the call for greater transparency to enhance the accountability of the Fund, to persuade authorities to take necessary action as its macroeconomic assessments are made public, as well as to allow for market participants to make more informed risk assessment. In the process, it provides the incentives to ensure the quality of published reports are maintained or strengthened further.

Evidences of the six bullet points of concerns on page 7 appeared unfounded but concerns remain:

We are equally pleasantly surprised by the turnout although with limited participation from members in the Asian and Latin American regions.

The overwhelming evidence ex post that there appears to be no loss of candor in the discussions indeed dispel the earlier concern on striking the right balance between candor and confidentiality during the discussions. Two points stood out in this regard, namely, the more candid dialogue taking place in a few cases and that officials were better prepared for the discussions. But at the same time, our earlier concern were confirmed with the experiences of a few participants about the loss of candor. Though these negative experience is relatively limited, however, it should not be dismissed entirely. We equally echo the views expressed by the many interviewees in the survey that the tendency toward loss in candor might strengthen over time - a concern also expressed by Mr. Shaalan and Ms. Farid in their statement.

With regard to staff reports turning out to be negotiated documents, evidences from the pilot project with increasing request for corrections and deletions need to be seriously taken into account, notwithstanding the resistance by staff to accommodate those changes. Indeed it signals a potent risk that staff reports which at the beginning has been earmarked to be published could well turn out to be negotiated documents.

On the additional audience of the report being other than the Board, like staff we view the development positively as it has the potential to increase the effectiveness of surveillance. On the lack of evidence on the asymmetrical impact, however, as has been noted, it could well be due to the prevailing global environment being in a recovery mode if not overall positive. Thus the impact is not fully tested and thus should not be ruled out as insignificant in arriving at the decision to the publication issue.

With regard to pressure on members to publish reports, as the evidence rightly pointed out, members were interested to participate on various reasons within the overall broad strategy on increased transparency in their activities. The fact that peer pressure, particularly in our region, could well be the main reason for our members to participate in the future and provided that the good times still prevail; the test will indeed be during not too good periods.

On the issue of difficulty to reverse publication process - we do not view the publication of the documents (Fund, staff or members) as the "genie being let out of the bottle". If indeed it is a genie, then it is a tame and controllable one with the cork firmly in our hands. In this regard we noted the concerns expressed in Box I of the main report. However, we are surprised by what appear to be staff's one mode stance against discontinuing publication. One should be reminded of the agreement in the pilot project that it would be a closed-end project thus after the trial period is over, no further voluntary release would be authorized pending evaluation of the pilot and a further decision by the Board on the general policy. Also we are not keen to the view that the Fund should make public the list of non-publishers. This is akin to a penalty list.

In conclusion, we could go along with the consensus to move to a policy of voluntary publication of Article IV staff reports, with the concerns expressed above taken into consideration, and with periodic review of the exercise. With regard to the tension between the need to provide more in depth vulnerability assessment and publication, we do not favor the dual track transparency approach for reasons already laid out by staff in the paper, but to continue as has been going on with the authorities maintaining their right to request for deletions for those market sensitive issues. It should be noted that authorities themselves are not in favor of requesting deletions or corrections to staff reports without justifiable and valid reasons.

Having the experience from the pilot project on the voluntary release of Article IV staff reports and the fact pointed out by staff that UFR reports appear less "controversial", we thus could agree with the voluntary release of UFR staff reports, with a review after one year. The present arrangement with regard to LOIs/MEFPs, Chairman's Statements and other related documents should continue. At the same time, we would also favor the periodic review by the Board of actual deletions to published UFR staff reports to arrive at more effective deletion policy.

In general, we could go along with the proposals set forth by staff in this area except on two areas (to be listed later). A significant benefit arising from this is to have a clearer publication policy with regard to Fund documents. Other concerns including the call for greater clarity of Fund's message as well as the need to post documents on the website other than in English should be heeded.

The two proposals which we are not fully agreeable to are the mission concluding statement and the UFR summings up. For the former, we seek further clarification on staff proposal to have mission concluding statement be published on the Fund website. Does it mean that mission concluding statements could be published without the consent of authorities noting the fact that the statement represent the views of the mission team not the Board and that the authorities have the option to issue a press release at the same time? With regard to UFR summings up, we would favor the present arrangement be maintained.

The staff representative from the Policy Development and Review Department stated that enhancing the transparency of the Fund's operations was an ongoing process. Accordingly, the proposed decisions were not final, and more would likely follow. The desire to increase transparency reflected a change in behavior on the part both of the staff and of the authorities, and the process must be monitored carefully. While progress until now had been promising, the success of the proposed guidelines would depend on how they were implemented.

Some Directors had pointed out that the guidelines in box 2 of the staff report appeared to suggest that developing countries were less transparent than developed countries, the staff representative said. That had not been the intention of the staff, and the content of box 2 would therefore be revised to reflect the fact that different countries had different approaches to transparency.

Other Directors had pointed out that the content of box 2 did not adequately reflect the important progress that had already been made in enhancing transparency, the staff representative continued. The staff would also take those comments into account when revising the guidelines.

Directors had also suggested that the guidelines contain a statement on the purpose of transparency, the staff representative noted. While the text of the staff report contained such a statement, the staff would ensure that it be included in box 2 as well.

The staff did not intend to change its current policy on advising the authorities on how to implement transparency, the staff representative remarked. However, a number of countries were currently stepping up involvement of civil society and the private sector in the Article IV assessments of their economies, as well as in program discussions. With respect to countries participating in the enhanced HIPC initiative, a formal process on how to involve civil society in the process of policy formulation had been put in place. The staff generally encouraged countries with market access—or that were close to achieving market access—to move toward a more open relationship with the private sector through increased transparency.

While the publication of national statements of policy intent in the context of Fund-supported programs would remain voluntary, some documents—in particular Joint Staff Assessments of PRSPs—would carry a presumption of publication, the staff representative said. Given that PRSPs were expected to be publicized, it seemed logical that the staff's assessments would also be made public.

Mr. Portugal noted that LOIs also carried a presumption of publication, but that the staff's assessments of LOIs were not currently being published. Therefore, the argument that JSAs must be published because PRSPs were published was not entirely logical.

The staff representative from the Policy Development and Review Department replied that there were differences in the degree of presumption. The guidelines stated that, there while there was a presumption that LOIs and MEFPs be published, the Board had decided in December 1999 that management would not recommend that the Board endorse PRSPs unless they were published, given the need to involve civil society in their formulation.

Mr. Shaalan noted that the process toward transparency in itself lacked transparency.

Ms. Lissakers remarked that the decision on the PRGF clearly stated that the PRSPs must grow out of public policy debates. Accordingly, all PRSPs that had been approved bys the Board so far had been publicized, which was consistent with the Fund's ex ante conditionality. While the same was not yet true of LOIs, mandatory publication of those documents would serve to enhance ownership and strengthen the authorities' commitment to carry out reforms. The publication of LOIs signaled the government's commitment to carry out the Fund-supported program and ensured public support for those reforms, which was essential for their success.

The staff representative from the Policy Development and Review Department remarked that the staff was not proposing to move beyond the status of presumed publication for documents such as LOIs. The Fund was not seeking to force its members to become more transparent, although its policy was to publish as many documents as possible. That policy was a response to a rapidly changing environment, which put an increasing premium on transparency.

Mr. Wijnholds remarked that countries must be comfortable with the Fund's decision to push for increased transparency. While the evidence presented in the staff report did not point to serious controversy, 80 percent of the countries participating in the pilot project had indicated that their position on transparency was "neutral". That raised questions about the remaining 20 percent, not to mention those countries that had not participated in the pilot project. For instance, it had been announced recently that the authorities of Morocco had decided to withdraw from the pilot project, for reasons that were unknown at the present stage. The Fund might be faced with a potential problem if it tried to coerce countries to adopt greater openness by publishing Article IV staff reports and other documents. There were other problems as well, for instance relating to the deletions policy, which might result in self-censorship by the staff, and to indicators of vulnerability which—if published—might harm investor confidence in the country concerned. Accordingly, the staff might want to consider introducing a more flexible deletions policy to counteract such tendencies.

Mr. Collins noted that it would be more transparent to state that the publication of PRSPs was mandatory, rather than to simply state that publication was presumed, as proposed in the new guidelines. The current formulation put PRSPs on a par with JSAs, which was misleading, insofar as JSAs might not always be published, whereas PRSPs always would be.

Mr. Chelsky remarked that the Fund would have to accept that some countries did not want to publish their staff reports. It was most unfortunate that Morocco's authorities had decided to withdraw from the pilot project, as that country's experience with the pilot project so far had been favorable. Their reasons for deciding not to publish the Article IV staff report were probably very relevant for the Fund's transparency policy, and ought therefore to have been addressed within the pilot project, especially given that a number of countries would likely decide not to publish in the future.

Mr. Daïri noted that a total of three countries in his constituency had agreed to participate in the pilot project. Of those, two countries had agreed to publish their staff reports. However, in the case of Morocco, there had been disagreements between the staff and the authorities with respect to exchange rate policy, including with respect to the staff's recommendations. That was why the authorities had decided not to publish the staff report and to withdraw from the pilot project. It had not been possible to edit the contentious parts of the staff report, as exchange rate policy was central to the entire staff report. Deletions had also proved unworkable, as that would have truncated the staff report. Withdrawing from the pilot project had accordingly presented the best solution, given the circumstances. It should be noted that Directors had also disagreed on the assessment of exchange rate policy and the staff's advice to the authorities during the Board meeting on Morocco's Article IV consultation. Bringing those disagreements into the public domain by publishing the staff report would simply have made matters worse.

The Chairman wondered whether the public had been made aware of Morocco's participation in the pilot project.

Mr. Daïri replied that Morocco's authorities had not announced publicly their decision to participate in the pilot project and, to his knowledge, the Fund had not published the list of participants either.

The staff representative from the Policy Development and Review Department confirmed that the Fund had decided not to publish the list of participants in the pilot project as an additional safeguard, although some of the participating countries had made public their decision to participate. Morocco was the only country so far that had asked to withdraw from the project.

Mr. Faini said he agreed with Mr. Chelsky that the case of Morocco demonstrated the need to respect those countries which were not fully comfortable with the increased transparency of the Fund. Perhaps the staff could consider how to guarantee the rights of those countries that were not in agreement with the Fund's policy of increasing transparency.

Mr. Daïri remarked that a decision not to publish a given staff report was not necessarily tantamount to being opposed to transparency. Morocco's authorities had displayed their interest in being transparent by agreeing to participate in the pilot project.

The Chairman stated that the discussion had confirmed that there was a need for a more systematic evaluation of the Fund's publication policy. However, the Fund must be aware of the fact that it was impossible to satisfy all its stakeholders at once. For some of the Fund's stakeholders, such as the non-governmental organizations, the Fund had not gone far enough. However, there were some issues, such as vulnerability analyses, that were simply not suited for publication. Voluntarism must remain the guiding principle of the Fund's publication policy, in order to preserve the sovereignty of its members. Yet countries might experience restrictions in market access if they refused to divulge information. For those reasons, management intended to ask the staff to carry out a broader review of transparency at some point in the future.

Mr. Yoshimura said he fully supported the proposal to have a review of the Fund's publication policy. While transparency was important, it should be considered in the context of accountability and country ownership. It would also be important to protect the external vulnerability of countries, which might point toward the need for greater flexibility.

Mr. Faini said that the Fund would learn more about the difficult issue of vulnerability analysis as it proceeded to enhance transparency. However, simply eliminating data from staff reports that related to countries' external vulnerability might not necessarily protect the countries concerned. First, it could be perceived by the public as if the Fund was "keeping two books". Second, the presentation of data without analysis could seriously mislead the markets. Accordingly, the Fund could add to the stability of countries by explaining to the markets the significance of various data.

Mr. Wijnholds said it might be useful to include data on the ratio of reserves to short-term debt and non-performing loans in all staff reports. However, there were clearly issues in the financial sector section of staff reports that might be market-sensitive. Such information ought to either be deleted from staff reports prior to their publication on the grounds that it was market sensitive, or be presented to the public in a separate statement.

The Chairman said he agreed that certain data might be misleading if presented to the public without explanation. For instance, BIS data could be misleading if the statistical methodology behind their compilation was not known. However, the Fund would be running the risk of providing explanations to vulnerability data that later proved to be mistaken, if it decided to publish vulnerability assessments.

The staff representative from the Policy Development and Review Department remarked that the staff was in favor of publishing Fund documents with as little delay as possible, although it recognized that some countries might want to publish documents with a longer delay, for various reasons. The staff had already experienced some pressure from countries which wanted to time the release of documents, which was difficult to resist. However, the staff also wanted to avoid falling into the trap of setting strict deadlines that might discourage some countries to publish. In the case in Nigeria and Kenya, the staff and the authorities had agreed not put any limit on the timing of publication. However, if publication was delayed beyond six months, the staff report would likely be outdated. That in turn raised the question of how to make sure that the financial markets were aware of the fact that the staff report was no longer based on the most recent data. Attempts to update the staff report would create a number of complications. In sum, the staff had decided to encourage prompt publication, with the understanding that flexibility might be called for in some instances.

Some Directors had proposed to extend the deletions policy beyond what had been proposed in the staff report, for instance by including some language from the side letters decision, in order to address the problems relating to politically sensitive information, the staff representative continued. The staff had considered revising the deletions policy, but had come to the conclusion that abandoning the current restrictive deletions policy would be too complex. If, for instance, the guidelines were revised to include language from the decision on side letters allowing for the deletion of material that was considered to directly hamper the implementation of Fund-supported programs, that would likely open the door for further deletion requests. It should also be recalled that the authorities still had the opportunity to request that market sensitive issues be dealt with in the form a side letter, rather than being included in the staff report itself. In sum, the staff had decided it was best to keep in place the current deletions policy, while monitoring developments carefully.

Some Directors had raised questions about the publication of vulnerability indicators and financing tables, the staff representative remarked. It was not currently the case that staff reports listed all financing details for Fund-supported programs. Instead, staff reports usually contained a reference to financing gaps, which the staff and the authorities had an understanding of how it would be met.

Data on reserves were published a with a lag, even when being a part of the performance criteria, and were therefore not subject to deletions, the staff representative related. While the markets might speculate on the actual level of reserves, the Fund had not generally experienced problems with the publication of performance criteria relating to reserves, with the exception of one or two countries. The authorities usually considered it helpful to indicate the reserve level that they wished to reach under a Fund-supported program. Accordingly, the staff did not see the need to except reserves data from the general publications policy.

The staff agreed that it might be an advantage to include vulnerability analyses in staff reports, in order to put the data into context, the staff representative remarked. That way, markets would be informed of whether the Fund regarded a particular country as vulnerable or not. The markets would make such assessments in any case, with or without information from the Fund. The staff disagreed with the proposal that vulnerability analyses be published separately, as that might send the wrong signal to the markets.

Some Directors had expressed disagreement with the staff's proposal to eliminate UFR summings up, the staff representative said. The staff had proposed to eliminate that document in the light of the already considerable list of documents that were read at the end of Board meetings, particularly following UFR consultations, where it was not uncommon for the chair to read out four separate documents. However, the staff had taken note of the opposition to delete the UFR summing up.

Mr. Wijnholds noted that the deletions policy was a complex area. The experience so far with deletions, as documented in the staff report, pointed to the emergence of certain trends. While deletions were normally limited to market-sensitive information, mainly relating to exchange rate and interest rate policy, there had been a number of cases, involving mostly industrial countries, where deletions of information relating to, for instance, wage policy had been requested. That gave rise to concerns that industrial countries might be using their influence with management to obtain deletions that went beyond what the current policy allowed for. Accordingly, it might be a better solution to acknowledge that the deletions policy must include provisions for the deletion of politically sensitive information. In developing countries, politically sensitive information was almost always also market sensitive, whereas that might not be the case for industrial countries.

Mr. Mozhin remarked that it might be a better solution simply not to publish a staff report than to delete parts of it. The deletions policy—especially if made more lenient—risked undermining the Fund's publication policy. Accordingly, the Moroccan authorities' decision not to publish the entire staff report appeared to represent a more sensible approach than engaging in long and protracted negotiations over possible deletions.

Mr. Esdar said he agreed that the deletions policy must remain restrictive. Otherwise the Fund ran the risk of creating a gray zone, which would eventually undermine the whole purpose of transparency and, hence, accountability.

Ms. Ongley said that evidence so far appeared to suggest that industrial countries were more prone to using their influence to obtain deletions from staff reports than developing countries. In order to create a level playing field, the current deletions policy should be made more flexible, as suggested by Mr. Wijnholds.

Mr. Yoshimura said that, while he agreed with Mr. Wijnholds and Mrs. Ongley, his experience suggested that national authorities often exerted considerable pressure on the Fund in order to obtain deletions, not only of market sensitive information, but of politically sensitive information as well. A restrictive deletions policy was the best way to address that problem.

Mr. Portugal said that, while he agreed with Mr. Wijnholds and Mrs. Ongley, the maintenance of a restrictive deletions policy was the best way to preserve the Fund's integrity, it might be worthwhile to include language from the side letters decision in the guidelines, as suggested earlier by some Directors. There might be situations when the authorities did not consider that a side letter was required, but still did not want the information to be divulged to the public. One such example might a planned increase in gasoline prices. It the deletions policy did not allow for such information to be deleted, the result might be to encourage the use of side letters, which would be regrettable.

Ms. Lissakers noted the importance of maintaining a strict, narrowly defined deletions policy, while retaining the possibility of case-by-case exceptions. The example referred to by Mr. Portugal of a planned increase in gasoline prices constituted market-sensitive information, and would hence be covered by the current policy. The problem of applying a more broadly defined deletions policy was where to draw the line. The staff and the authorities ran the risk of being engaged in perpetual negotiations over the wording of staff reports. The current policy, as evidenced by the experience in the pilot project, had proved manageable, and it was noteworthy that only one country in the pilot project had decided to exercise its right to withdraw. The deletions policy should be implemented uniformly across countries and classes of documents.

Mr. Törnqvist said that he agreed with Ms. Lissakers: the more clearly defined the policy, the less room for negotiations. The proposal put forward by Mr. Wijnholds and Mrs. Ongley to broaden the deletions policy would in all likelihood lead to more negotiation rather than less.

The staff representative from the Policy Development and Review Department noted that the staff had been surprised by the fact that the developing countries and countries in transition that had participated in the pilot project had, for the most part, agreed to publish their staff reports with no changes, whereas the industrial countries had requested a number of changes, although some of them had been for factual corrections. The staff was of the view that a relaxation of the deletions policy would result in endless negotiations over the drafting of staff reports. If a country was prepared to publish an analysis of its economic policies, it ought not be concerned with those parts of the report that it was in disagreement with, and it could make a public statement to that effect.

Mr. Collins agreed that the deletions policy must be limited to highly market-sensitive information, while excluding politically sensitive information. The problem was that, whereas market-sensitive information was in all likelihood politically sensitive as well, not all politically sensitive information was market sensitive. While a distinction between market sensitive and political sensitive information could be made in theory, it would be much more difficult to make in practice.

Mr. Prader said he agreed that the current policy should be maintained, and that the industrial countries must put an end to their numerous requests for changes.

The Chairman noted that it was management’s responsibility to ensure that all members received equal treatment.

Another staff representative from the Policy Development and Review Department stated that the staff intended to review the proposed decision in the light of Directors’ comments. The decision would then be proposed for adoption on a lapse-of-time basis. The staff planned to issue papers on FSSAs and ROSCs later in 2000, which would also address publication issues. The staff would also work on a proposal for translating documents into languages other than English, to be presented to the Board at a date to be announced.

Mr. Collins made the following statement:

> It will come as no surprise to colleagues when I say that I view the recent increase in Fund transparency as a positive development. Like others, I welcome the opportunity to consider not only the outcome of the pilot project on Article IV publication, but also IMF publication policy more generally, and I see this discussion as a first attempt at that. This institution, along with much of its membership, has undergone a remarkable transformation in the last few years, as we have collectively begun to embrace transparency, accountability, and principles of openness in economic policy making.
>
> The staff has set out for us today a number of suggestions that collectively should allow us to build on the gains made over the last three years. I hope we are ready and willing to act now to ensure these gains are built upon.

Like the staff, I believe it is essential to have a simple, clearly defined policy for publication of Fund documents across a whole range of our work. We need to ensure consistency between our publication policy on surveillance, programs, and policy making, rather than continuing to rely on ad hoc policies. And we need a publication policy which is internally consistent, so that authorities are not tempted to arbitrage between different vehicles for conveying information to the Board, depending on the publication policy which applies to each of them.

As Mr. Wijnholds notes, we now publish over 20 different types of surveillance and program documents. When you consider our ongoing work for the FSAP, OFC surveillance and ROSC modules, we should already now expect to see demands for this number to expand. And when we add our policy discussions to this expanding list, it is clear that the sooner we adopt an overarching publication strategy, the better. What we need is a clear, simple, and transparent policy on publication, one that is easy to understand for both members and staff alike, that is easy to communicate to the general public, and that is consistently applied.

In general, the staff's proposals are broadly acceptable to this chair. I can support the recommendation to move to permanent voluntary release of Article IV reports, and I broadly endorse the policy statement in box 2 of the staff report. I do, however, have significant reservations about the first overarching bullet point in the box. As this serves as an introduction to the Fund's publication policy, it should be explaining the rationale for transparency rather than presenting a series of caveats that apply in some circumstances, which could justify not releasing some documents on specific occasions.

As we have acknowledged, the Fund has made significant progress over the last three years in improving its own transparency, and any public articulation of this institution's policy in this regard should acknowledge that fact. It should say that the Fund aims to be a transparent organization and that, while publication of country documents depends on the consent of the members involved, the context is one of increasing openness.

Like Ms. Lissakers, we must also recognize the fact that as an institution, we do have a presumption of publication for a range of documents. In addition, we should note for completeness at least for ourselves—although not necessarily in box 2—that in certain instances, publication can be mandatory. In cases of misreporting, we have agreement on the mandatory publication of a press statement, and I believe that in certain exceptional circumstances, the Board has the power to decide to release documents against a member's will, if necessary. And there is the point I made earlier about PRSPs.

All this is part of the Fund’s communication strategy. Greater attention needs to be paid to the tone and content of the message that we deliver to the outside world. Our objective should be to explain why we are attempting to expand publication rather than why we have not made it mandatory. We should be looking for a positive approach to information presentation rather than adopting a somewhat defensive approach. We believe that working within an existing resource allocation, scope exists for significant improvement in the way Fund communicates with the general public. We would welcome an initiative to convey information more proactively on the nature and purpose of the Fund in a more user-friendly way than is available at present.

One last thought on this topic. As part of the Fund's communication strategy, it will be important for us to be transparent about transparency. Following this meeting, I presume we will release a press statement, explaining our new publication policy, rather than just releasing this document on the web. We should ensure that the consequences of the new policy are easily apparent to interested parties. Presumably the centerpiece will be the suitably revised policy statements in box 2, although that should not stand alone. It should be set in a context of more informal language, and explain the evolution of the policy through experimentation, and how the Fund policy statement was arrived at. In addition, we should begin grouping publications together, possibly by country, so that it is clear to our web readers exactly what is being published. So to this end, a review of the external web site may be called for.

Turning to the pilot project on the publication of Article IV staff reports, I commend the staff and the external consultant, Mr. Cox, for their thorough analysis. In light of the evidence contained in the two papers, it should be clear to all that the pilot project has been successful, both in the way it has been conducted and in the substantive results it has achieved. As I said before, I support staff's recommendations.

Concerns that publication would have significant negative consequences for both the Fund and its member countries have proved to be unfounded, while the benefits claimed on behalf of transparency ahead of the pilot project have in general materialized. The prospect of publication has, if anything, improved staff's analysis in drafting, and encouraged both the authorities and the Board to pay greater attention to the content of the reports, which is in itself no bad thing. This exercise only serves to strengthen our belief that the publication of Article IV staff reports is a crucial part of the Fund’s surveillance mandate. It is too early to consider moving from voluntary to mandatory publication, as that would require complete consensus in the Board. But in due course, maybe that is something we can talk about, although I am certainly not putting that proposal on the table at the moment.

Despite initial concerns, evidence from the pilot project suggests that there was in fact no loss of candor in the Article IV staff reports. In fact, it has been suggested that publication has increased the interest of the authorities in the Article IV process, and produced a better outcome. Evidence suggests that the pilot project led to an increase in the number of requests for amendments to staff reports. Insofar as these are genuine factual questions, this trend is to be welcomed. In the past, small factual corrections were not corrected by the authorities, because the report would simply go on file.

Like the staff, I support limiting corrections to facts and limiting deletions to market-sensitive information only, but as I said earlier, the latter part is easier said than done.

In any event, transparency also places obligations on Fund staff to be sensitive to the implications of their output on public attitudes to economic policy in the country concerned. While it is only right that the staff report speak to a wider audience than the Board, that does place certain obligations on the authors. Above all, it places an obligation on the staff to ensure that their reports are of the highest quality, that all statements can be supported by sound analysis, and that sufficient attention is paid to the language used in the reports.

Given the success of the Article IV pilot project, and the need to maximize transparency and information sharing with the private sector, we also support the move toward voluntary publication of stand-alone UFR reports. I am very uncomfortable, however, with the formulation in box 2. I quote: “UFR staff requests would include assessments of risk consistent with the recommendation for use of Fund resources”. What does this mean? Does it mean that we sometimes approve arrangements we would not approve if the UFR document was not going to be published, or the UFR document must be modified for publication? Whatever it means, it is certainly an odd thing to say in a document which will itself probably be published, if only because it could give rise to the very misunderstanding which I have just mentioned. I would be grateful for staff elaboration on precisely what it does mean.

This leads me to the question of publication of policy papers. The publication experience with policy papers seems to be working well. But I do have concerns about the approach we should take in the cases where the staff's proposals on a particular topic are found to be inappropriate by the Board. For example, suppose we concluded that the language on UFR which I just quoted was inappropriate or misleading? I am not sure it would help to have it in the public domain in a published version of the paper we are discussing today—even if there were an accompanying summing up, explaining why it was to be omitted for the final policy statement on publication. Further thought needs to be given to that conundrum.

Moving on to a number of other issues more briefly, on staff-monitored programs, the staff only supports introducing voluntary publication, but like Ms. Lissakers, I believe that there ought to be a presumption of publication.

After all, the main reason for adopting a staff-monitored program is to develop a track record of effective policy implementation, and in such circumstances, it is not the Fund alone that needs to be convinced, but markets and the public at large.

A press notice should be published when waivers are granted, in order to make it clear to the markets exactly where we stand on particular programs and countries.

FSSA and OFC surveillance and publication policy needs to be brought within the general policy framework quickly, given that we are conducting 24 such assessments in 2000. It is a pity that we cannot accelerate the process for agreeing on a publication policy for these documents.

I would appreciate a response to Mr. Wijnholds' question concerning documents which the authorities would like to publish, but which predate our new publications policy.

I support the release of documents in languages other than English. This would be a significant step in increasing Fund transparency. While cost is obviously an issue, translation of our documents into the major languages is something that the Fund could do to address the needs of a large proportion of the membership. For some smaller countries, Fund documents might not be useful at all unless translated. The Fund should consider how that could be done, perhaps through a subsidy from the Fund to the country in question. Certainly PRSPs should be drafted in the country’s own language, if they are to be based on a participatory process.

We also need to consider how the Fund should respond to cases where the authorities choose to release only edited versions of documents such as LOIs or MEFPs—something which is within their right. In such circumstances, unless the Board has agreed on the deletions, it could be argued that the Fund should automatically release the entire document on its own web site.

Mr. Shaalan said he was surprised by Mr. Collins’ call for a strict deletions policy, given that his chair had argued strongly in favor of changing, or deleting, certain paragraphs in the 2000 Article IV consultation report for the United Kingdom. On that occasion, Mr. Pickford had noted that if his authorities had known that their comments on exchange rate policy were going to be included in the report, they would have conducted the consultations in a different manner.

Mr. Prader made the following statement:

The staff's review of several important transparency issues is timely. The pilot project has produced generally encouraging results, including a high participation rate. Less encouraging, even worrisome, is the large number of requests, mostly from industrial countries including some ardent advocates of transparency, to make deletions and changes in published documents. As Mr. Mozhin points out, this would seem to undermine the legitimacy of the process and confirm initial concerns that "negotiated documents' could become quite frequent. It is equally clear that the policy of voluntary publication cannot be reversed and that the pilot project has lived up to initial expectations that it would become a consensus-building instrument. There are now relatively few obstacles to ending the trial status of this project and making it a regular Fund procedure. A number of improvements and adjustment are not only useful but helpful in gaining the support of all the membership. In this vein, I wish make the following comments:

We support the proposal to review our experience with voluntary release of staff reports again in one year, for the following reasons. (1) The participation of countries previously unwilling join the pilot project, and Fund's closer focus on in-depth vulnerability assessments, may both bring new experiences that will help improve the transparency initiatives. (2) The present publication procedures are too rigid, and should be made simpler and more flexible. Further refinements of the process should continue to be guided by the separate objectives of preserving the candor of the Fund's surveillance and preserving members' willingness to share confidential information with the Fund.

As to concerns that publication will lead to the emergence of "negotiated documents," it is up to the Board to exercise self-restraint and the staff to hold the line firmly. We must therefore support their efforts and proposals for keeping to a minimum, in their reports, the correction of factual data and the deletion of supposedly market sensitive information.

A major contributing factor in the emergence of "negotiated documents" seems to be connected with the definition of "market-sensitive" as applied to information. This has become a favorite loophole through which to thrust requests for changing staff papers. It is not certain that this loophole can be closed, but we support the staff's efforts to narrow it by limiting the definition to "mainly views on exchange and interest rate matters."

At the same time, I must make one point on the decision-making process. Bullet 4 in Section 2 of Box 2 proposes that in cases where the country authorities the staff cannot agree on what deletions of market-sensitive information are acceptable, Management shall make the decision. This makes the Management (as head of the staff) the arbiter of a disagreement in which it is a contending party. The Board's decision on the PIN stipulates that if the country and the staff disagree on what is market sensitive, it is the Board that will settle the case. Indeed, countries have the right to see market sensitive information deleted, and to have the matter settled by a fair decision-making process.

Acceptance of the new transparency and publication policies will also be promoted by ensuring that the basic principle of even-handed treatment of all members is conspicuously visible in the Fund's publication policy while special treatment is carefully avoided. It would strengthen members' confidence in the new publication policy if they were given the possibility of including their authorities comments on the staff report, and the inclusion of such statements were clearly made known to the public.

As to whether the Executive Board or the general public should be regarded as the principal audience of staff reports, it is our position that it should be the Executive Board. And as already mentioned, the publication of staff papers should avoid the pitfalls of excessively rigid procedures. This clearly calls for reform.

I will mention two examples of needed reforms. The first is the policy of not updating the staff report to reflect significant changes in the member country since the Fund's consultation mission visited the capital. This policy reduces the usefulness of the Article IV report to the authorities, confuses the public, and makes the Fund appear to be a very rigid organization where process triumphs over substance. Under the present rigid approach, only insider participants in the process are allowed to understand that there has been significant change since the consultation mission. We propose that instead of insisting on an unchanged staff report that has to be corrected with a separate supplementary document which risks being overlooked by the public, we should issue a consolidated version of the staff report and the supplement which points out and evaluates significant changes in economic policy that have taken place in the occasionally considerable time that has elapsed since the consultation mission visited the capital. I propose that the principle of publishing consolidated staff reports should be included in today's decision, which will require changing the third and the seventh bullet points in Section 2, Box 2.

My second example of a policy in need of change is the present practice of scattering all over the web site a mass of separate documents reflecting the views and activities of various parties during and after the consultation, instead of gathering all this information into a single document at the end of the process. We think that the OECD's approach based on single country reports is much more efficient, simple, and transparent, and therefore preferable.

Just to be specific, the mass of documents posted in the course of an Article IV consultation starts with the concluding statement at the end of the mission to the country; continues with the so-called "bundle" containing the staff report, the supplement to the staff report, the PIN, and eventually the authorities' buff statement; and ends—not until a month after the Board concludes the consultation—with the staff's background papers.

This mass of diverse documents can be understood inside the Fund as resulting from the various stages in the gradual evolution over time of the Fund's publication policy. But are complex procedures the best way of conveying the Fund's views to the outside world? We hope the staff and Management will come to embrace user friendliness as the touchstone of best publication practices, as amply demonstrated by the model of the OECD. There is a strong case for a single document at the end of the Article IV process, to include the consolidated staff assessment, the staff's background papers, the Executive Board's views, and if they exist, the authorities' views at the end of the Article IV process.

We have serious reservations about the suggestions in Paragraph 28, where the staff proposes to include, in the principles of publication, a statement that Use of Fund Resources (UFR) staff reports should include an assessment of program risks when the use of Fund resources is recommended. It is awkward to tailor the risk assessment to the recommendation. It is also fundamentally wrong from the standpoint of the Fund's accountability and transparency policy. The risk assessment cannot be adjusted before it goes to the Board because the Board's informed judgment must be based on full access to all relevant information. Nor can the risk assessment be adjusted after the Board decision, because doing so would knowingly misinform the public about the UFR case involved.

At the same time I appreciate the staff's frank description of the attendant dilemmas and would not support deletion of the respective contentious sentences as proposed by some speakers. What we propose is simply not to publish the assessment of the risks--after all, no commercial bank publishes an assessment of the risks when it grants a loan. Non-publication could be accomplished by having two sets of staff documents when UFR cases are involved. One set, available for publication, would describe the program to be supported by Fund resources. The other set, for the exclusive use of Executive Directors, would contain the assessment of the risks of the Fund loan. But whatever solution is found, the approach presently proposed by the staff to the publication of UFR staff reports is unacceptable.

Finally, in Paragraph 53, the staff proposes to continue the release of PINs on policy issues, although only six such PINs were released in the last year. A PIN on policy issues consists of a background section and the summing up of the Board discussion. The staff usefully suggests that for each policy discussion, it will offer a recommendation to the Board on the desirability of releasing a PIN. In principle no PIN should be published until the policy discussion is considered to have been concluded.

> In Paragraph 54, the staff also proposes to continue a practice of publishing, in extenso, staff papers on policy issues. We doubt the usefulness of systematically publishing staff reports on policy issues, as these papers are often very technical and are regularly modified in light of the Board's discussion. Even about PINs, which are intended to inform the public and not the Board, the media are of the view that their information is "overly difficult to follow." In Paragraph 54, the staff suggests that the practice of publishing staff papers is based on a general rule adopted by the Board on March 8, 1999. The staff quotes the summing up of that decision as follows: "Accordingly, the Board agreed to have the Chairman solicit views of Executive Directors at the time of Board meeting on policy issues as to the desirability of publishing the paper." Unfortunately, this is a misquotation of the summing up, because the words "publishing the paper" have been substituted for the words "releasing a PIN." We cannot recall that the Board ever decided on a general rule allowing the publication of staff policy papers, and indeed the yellow book of Selected Decisions includes only Decision 11972, on the release of PINs on policy matters (see page 568).
>
> We regret this incident of misreporting by the staff concerning the nature of past Board decisions, since Directors should be able to trust the accuracy of staff reports.

Mr. Törnqvist remarked that the proposal to issue consolidated Fund country reports might delay publication to the extent that documents would be outdated when they were eventually published.

While it certainly made sense to publish documents relating to specific countries together, that would prove time-consuming to implement, the staff representative noted. Accordingly, the staff was not in favor of that particular proposal.

Mr. Prader noted that the OECD was able to publish its country documents in a consolidated fashion. The Fund should explore ways to make its website more user-friendly and easy to understand for the public.

Mr. Faini noted that Mr. Prader's proposal to continuously update Article IV reports would result in complicated revisions and deletions, which was precisely what both the staff and the Board wanted to avoid. While some improvements might be made to the presentation of documents on the Fund's external web site, it was not advisable to alter the publication policy.

Mr. Prader noted that transparency for the sake of transparency was not advisable. Transparency must be designed to enhance the public's perception of the Fund and its activities. While there were problems with adopting a more flexible deletions and revisions policy, it would address situations where the staff had used outdated data to describe a country's economy, or situations where the authorities' policies had been inadequately portrayed.

Mr. Faini replied that the staff normally was flexible, and that it had the option of describing policy changes, or new data, in a staff supplement, if that proved necessary.

Mr. Bauche said that, while he was sympathetic to Mr. Prader's proposal to present a consolidated view of a country's economic situation on the external web site, he was inclined to agree with Mr. Faini that such an approach would prove impossible to implement in practice. However, it might be possible to introduce more links on the web site between various documents relating to the same country.

Mr. Chelsky made the following statement:

> In case I forget to agree with Mr. Faini later, let me do so now. I would also presume that if there have been significant changes in a country's economic situation or in policies, not only would the Director representing the country issue a preliminary statement to that effect, but the staff would probably also prepare a supplement.
>
> Let me commend the staff for so deftly navigating the minefield we call the Fund's policy on transparency. The paper prepared for today's discussion is a thorough, well-written, and balanced treatment of what has proved to be among the most sensitive and difficult issues with which the Board has had to address recently. This chair would also like to express its appreciation to Mr. Cox for the integrity and intelligence that he has brought to his role as consultant on the pilot project.
>
> That said, I will add little on the need for a preamble on the general issue of transparency, since the views of this chair are well known. I would only draw attention to a particularly important and perhaps initially overlooked implication of allowing the publication of Article IV staff reports—an implication which not even Mr. Shaalan can deny is positive for the Fund. Paragraph 13 notes that publication has increased the interest of the authorities in the Article IV consultation process, and that officials were generally better prepared for the discussions. Had we known this would happen, we would have adopted a more liberal publication policy at the outset of the Bretton Woods conference! Let me now turn to the specific recommendations before us.
>
> In the interest of brevity, I will restrict myself to points raised by staff on which I disagree, or feel a need to elaborate.
>
> It should come as no surprise that this chair supports the move to a policy of voluntary publication of Article IV and combined Article IV and UFR staff reports. It will be important, as we move forward, to provide the staff with strong assurances that it has the support of the Board in its belief that the frankness of discussions should be maintained, and that staff reports must not become negotiated documents. Management can be confident of the Board's

support and is encouraged to support the staff strongly in discussions with the authorities.

While I accept that there are important differences between UFR and Article IV staff reports, I disagree on the treatment given to this issue in the staff paper. I believe that the differences between the two types of documents are overstated. For example, I agree with Mr. Wijnholds that the language in box 2 on the inclusion of risk assessments that are consistent with the recommendations of use of Fund resources is problematic. At the very least, we should make clear that these assessments must be accurate. Moreover, as the staff suggests in paragraph 32, we are not giving markets or the public much credit for their awareness of program risks and vulnerabilities. Quite frankly, for the Fund to ignore risks and vulnerabilities publicly or dismiss their importance, would do little more than undermine the credibility of the Fund program, and over time of the Fund itself. Indeed, because of the potential collateral damage to the Fund's credibility, and the loss that this would entail for all Fund members, I would prefer to see fewer UFR reports published than to have them sanitized to such a degree that they become marketing tools for government policies. The fact that the Fund is proceeding with a program with full and clear knowledge of the challenges before it is at the heart of the confidence building that Fund involvement brings. It is this, and not flattering words said by the Fund in public about the authorities, that matters most.

Moreover, publication of UFR staff reports should be in a member's interest, given the opportunity which it presents to raise the profile of the authorities' program and explain the underlying rationale for its content. Some members will no doubt realize this, and will require little or no encouragement to volunteer publication of UFR staff reports in the period ahead. Others will not. My hope is that the members who decide to publish will provide evidence to others that give them confidence to act in a similar fashion. However, this chair is not prepared to support sacrificing the candor of UFR staff reports to the extent suggested in the staff paper, in order to increase the number of published reports. Let us not forget that one of the major lessons of the 1990s was the importance of clear and direct economic analysis in policy recommendations. We should allow voluntary publication, which will eventually demonstrate its usefulness to the member's interests on its own merits. However, if the price of preserving candor is that we start off at a more moderate pace, this chair is prepared to accept that.

Like Ms. Lissakers, Mr. Wijnholds, Mrs. Hetrakul, and Mr. Faini, I cannot agree to discontinue the practice of preparing summings up for UFR discussions. In addition to the arguments advanced by my colleagues, I contend that the existence of a more fulsome and balanced summing up disciplines the content of the chairman's statement and ensures that it does not depart from the opinions expressed by Directors. In addition, having served on the Board prior to the practice of having UFR summings up, I can recall that, despite the existence of minutes, Directors, the staff, and management have walked away from meetings with fundamentally different understandings of the balance of opinion. The UFR summing up is a safeguard against this, and should accordingly remain part of the UFR process. However, I agree that there is scope for rationalization. What I would suggest is that, during joint Article IV and UFR discussions, the UFR summing up could be omitted, given the existence of the Article IV summing up. A similar rationalization might be possible for HIPC discussions.

On LOIs and MEFPs, the staff recommends that these be published simultaneously, rather than prior to, staff reports and associated Fund documentation. While I can understand why the Fund for its own procedural reasons might want to have all documentation published at the same time, I would suggest more flexibility. In particular, it is conceivable that a member may want to make use of its LOI in advance of the release of other Fund documentation in an effort to build domestic support for its program. It would be unfortunate if we were to constrain such a worthwhile objective in order to avoid a minor inconvenience to the Fund. In this regard, may I suggest that that the last sentence of paragraph 43 be deleted. That would allow a member to publish its LOI through non-Fund sources prior to the circulation of documents to the Executive Board.

With respect to policy discussions, this chair is supportive of the principle of publishing policy summings up as well as related background documentation following Board deliberations, when it can make a useful contribution to public education and policy debate—which incidentally is not necessarily when the issue has been resolved. However, unlike the proposal contained in the staff paper, we believe that the Board should retain flexibility with respect to the appropriate modality for publication. This would better acknowledge the diverse nature of our policy deliberations. While Board policy discussions are most often based on staff papers which then become Board documents, we have also begun to have discussions based on various papers prepared by groups of Executive Directors. Further, not all policy discussions have resulted in summings up. There have been occasions when it was deemed not to be advisable to summarize a discussion, and chairman's concluding remarks were prepared instead. Using a PIN as the sole modality for communicating policy discussions runs the risk of blurring this distinction in the public eye. Were we not to allow sufficient flexibility to the Board in choosing how to communicate its policy deliberations, we would lose an important channel for achieving consensus among Directors with respect to publication, and at times between Directors and management.

This raises another issue, one that this chair has raised previously. Particularly with respect to policy issues, it would be useful for Board papers to flag communication issues of relevance to the topic at hand. The staff could also present Directors with recommendations on how to communicate the issue to the public. The recommendation that staff reports contain an indication of whether or not publication is a step in this direction, but we need to go further.

This chair attaches considerable importance to increasing the availability of country documents in languages other than English. We understand that the resource costs are potentially large and would therefore suggest that the paper which the staff intends to prepare contain options for consideration by the Board, including on in- house translation and sub-contracting of translation services. We would also ask that recommendations be prepared on how to prioritize the various Fund documents for translation since quite clearly we will not be in a position to extend a translation policy to all reports, at least not initially. Should we for instance focus our resources on Article IV reports, UFR reports or policy papers? To do this, we must make sure that the external audience that we are trying to reach are least able to access the information presented in English. My guess is that the typical market participants, regardless of nationality, are not overly constrained by English-only documentation. The same cannot be said of civil society and official communities around the world. While on the topic of languages other than English, I note the criticism of media representatives that the chairman's statements are filled with jargon and legalese. Here, I hope that the External Relations Department will assume greater responsibility for assisting staff and management in drafting statements that are as clear and un-bureaucratic as possible.

I am indifferent to the question of whether any of the papers prepared for today's discussion are published and am willing to go along with the consensus. However, it will be important for us to reach agreement on whether the planned periodic reviews of the impact of transparency on the Fund (envisaged in paragraph 25) should be published. Quite frankly, if in a year from now the statistics still show that industrial countries are making the most intensive use of the deletions policy, shining some light on this practice might prove useful in encouraging greater restraint on the part of the relevant members. As for now, I agree that a public statement on transparency policy should be prepared following this meeting for circulation along with the summing up for this discussion.

That being said, while our policy may be highly nuanced out of necessity, what we release to the public should be clear and simple. In this regard, while I believe that, with the exceptions noted above, box 2 contains the basis for such an announcement, it might be too detailed and procedural for the purposes of effective public communication.

On the broader issue of publication policy, I agree with the chairman that a review would be a useful exercise, although I will flag that such a policy will require considerable flexibility and scope for judgment on the part of the

Board and management, given the nature of the Fund's work and the fact that it is a very uncertain world.

Finally, like Ms. Lissakers, this chair looks forward to discussing proposals soon on the further liberalization of access to the Fund's archives.

Mr. Törnqvist remarked that he agreed with Mr. Chelsky's proposal for allowing the publication of LOIs prior to Board meetings.

Mr. Oyarzabal made the following statement:

We welcome today's discussion. The papers prepared by staff are comprehensive and bring out the progress made through the pilot project in the increasing acceptance of transparency. The project having achieved a total of 66 participants distributed between 23 advanced economies, 12 economies in transition and 31 developing countries is preliminary evidence that there has been relatively broad participation in the project. This group represents roughly over third of the total membership.

It appears from the reports that there have been important lessons learned from this experience. Based on staff's appraisal the candor of the consultation process was not affected and the quality of reports were able to remain at high levels. In essence, confidentiality between members and staff has not suffered from the pilot project.

The staff has done a good job in evaluating the pilot project. Yet, without meaning to undervalue this effort, it seems that there are important elements that should have been given more weight in the analysis to present a more balanced picture. In the first place, roughly two thirds of member countries did not participate in the project. Second, the percentage of developing countries participating was rather low. Moreover, that there were few countries from South America, Asia, and the Middle East in the list of participants should also be a matter of interest, to say the least. Also, it seems plausible to think that the real test for publication will come when the going becomes rough. We do not wish to cast too much of a negative light, but it is something to also keep in mind. A third element is the difficulty in evaluating the leadership role played by industrial countries in the pilot project, while the rise in corrections and deletions send a contrasting message. In effect, this raises some questions, which might strengthen the analysis and suggestions, for example, as to which subject matter is more sensitive politically and to the market place. Lastly, the second or third year of the project will also be a test, as this is an ongoing process that needs a bit more time to mature properly. Staff comments would be welcomed.

In any case, it is wise to adopt a general policy on voluntary publication with some caveats which should be reviewed within a year to evaluate if the present thrust of the pilot project has maintained the desired momentum and identify those experiences or issues that can be helpful in applying or modifying a policy which has wide membership support and as it responds well to member countries' realities. This chair can support the four main elements proposed by Mr. Wijnholds that should be included in the policy statement: (1) publication is voluntary: (2) we try to be as transparent as possible; (3) in doing so, we take into account different stages of institutional and political development; and (4) we take into account the need to delete highly-market sensitive information.

With respect to the publication of Art. IV reports, we feel that the present policy of a voluntary approach should be maintained. Encouragement can backfire and lead to loss of candor in discussions and/or what it seems to be the possibility of negotiated documents. It is important that we do not undermine the confidentiality of discussions that should lead to difficulty in accepting the sound advice coming from staff. Moreover, the issue of ownership in participating in the project is also extremely important and must be taken into account as transparency is promoted throughout member countries and within the Fund itself.

As vulnerability assessment are becoming an increasing part of our analysis, and particularly the need to highlight the risk inherent in programs of UFR, we feel that it is very difficult to support publication of UFR reports, as well as SMPs.

On the definition of a deletion policy, we share the concerns brought forward by Mr. Wijnholds and Mr. Taylor. In our view, flexibility is necessary in the search for a balanced policy at this stage, as more experience is obtained it might be easier to assess where and how reality calls for a policy response.

We believe that the issues brought out in these two papers should be reviewed within one year, and would suggest that greater efforts be made to present a more balanced picture of the results of the experiences obtained at that time in promoting transparency. If the momentum garnered so far in favor of this initiative is maintained, it could be envisaged that within a year a much greater number of members might be participating in the process. For us this "de facto" approach is important as it supports the issue of ownership, which we feel is essential.

Mr. Wei made the following statement:

At the outset, I would like to join the previous speakers in welcoming today's discussion on the review of the pilot project for voluntary release of Article IV reports and other issues of Fund transparency, and in emphasizing the importance of transparency in an environment of accelerated globalization.

Needless to say, increasing transparency is important for the Fund in enhancing its credibility and accountability. However, we should first recognize that transparency is not an end in itself. Its ultimate objective is to promote the macroeconomic and financial stability of members. My other general comment is to echo the view that the confidentiality and candor of our discussions should not be weakened as we push forward with transparency, including the publication of Fund documents. In this context, I would suggest that the process of improving transparency should be orderly and well sequenced.

The other issue I would like to mention is transparency in private sector operations. Like others, this chair also feels regret about the omission in the paper on the norms of disclosure for the private sector, In my opinion, the notion of transparency is a two-way concept and should be well balanced and symmetric. As the Fund embarks on a new Transparency strategy, we should also take into account the overall aspects of the matter. However, we understand the difficulties for the staff in striking a delicate balance between these conflicting considerations. Nevertheless, staff is encouraged to make further efforts in this regard.

This having been said, let me turn to the specific issues for discussion.

First, we support the proposed general policy for publishing Article IV reports, the combined Article IV-UFR reports, and related papers. We appreciate the voluntary principle as reaffirmed by the staff in the paper. However, as mentioned earlier, we do have some general concerns which are quite similar as the four bullet points expressed in the introductory page of Mr. Taylor's gray. In this respect, on Box 2 for the first bullet point, I would like to propose deleting "...and willingness..." since I don't think we've ever come to a case where a member is unwilling to move to greater transparency.

On the release of Article IV staff reports, I share the views of Mr. Taylor and others, as it could have the risk of compromising the quality and usefulness of the consultation process, and the frankness of reports to the Board. Staff reports often contain the authorities' views on various policies, which could be sensitive in nature, and the disclosure of such information might have a negative impact on policy implementation. We are also more concerned about the inclusion of vulnerability analysis in Fund surveillance and staff reports.

On this issue, Mr. Wijnholds has made very useful suggestion on whether it is flexible to delete the vulnerability analysis, or should this issue be discussed verbally at the Board.

On the issue of difficulty to reverse the publication process, I share Mrs. Hetrakul's view that staff made only one mode stance against discontinuing publication. We should give full respect to the voluntarism principle. On the issue of publishing UFR staff reports, we are concerned that any disagreements between staff and the authorities reported in the documents could lower the likelihood of building confidence in the member's program. In addition, the release of UFR staff reports might lead to a proliferation of side letters. Therefore, I maintain a cautious attitude toward the release of the UFR stand-alone staff reports. I associate myself with Mr. Taylor's proposal, i.e., we could agree to a trial of the publication on the basis which has been stated in his gray.

On the issue of PINs following Article IV consultations, we would emphasize again the principle of voluntarism. Due to the language problem, we are of the view that flexibility should be given to the proposed ten working day limit for the PIN release.

On the issue of deletion, while we could support the policy stance in Box 3, we are of the view that politically sensitive descriptions should be deleted at the request of the authorities, in addition to market sensitive information. Mr. Wijnholds has made very good comments on this issue, which I share.

On the issue of the discontinuation of summings up for UFR cases, we could support the staff proposal as it will help streamline the procedure and enhance efficiency. Nevertheless, I could go along with Ms. Lissakers' proposal.

Lastly, we fully support the staff proposal to release the documents in languages other than English. The Fund should provide the necessary support to members for this purpose.

Mr. Bauche made the following statement:

The staff has prepared an excellent paper and should be commended for their clear presentation of the sensitive issues and for their sensible proposals.

While being strong supporter of more transparency, this chair expressed several concerns during previous discussions. Today, I must say that I have been impressed by the results of the pilot project. Of course, it can still be argued that the pilot project was conducted under conditions that are not exactly those of real life; as in quantum physics, the observation of the experiment has interfered with the results of the experiment. The large participation in the pilot project—even when taking into account the somewhat more limited participation of Asian and Latin American countries—and the very positive feedback identified by Mr. Cox shows that a large part the membership has been willing to play the game with a great spirit of cooperation. So with the benefits of hindsight and following the staff's assessment, it seems as if the Fund's "transparency dilemma" was probably overstated. The results of the pilot project have eliminated most of my previous concerns. Therefore, I can be very brief on the issues for discussion presented by the staff.

First, we are convinced by the results of the staff assessment and we therefore support the proposals concerning the Fund's general publication policy for country papers.

Concerning Article IV staff reports, the shift toward a policy of voluntary publication is appropriate. In fact, I must add that France has been so convinced by the virtues of the pilot project that we have participated twice in this experiment.

Concerning the publication of UFR reports, we are also ready to go forward along the lines proposed by the staff. Of course, we should proceed with cautious optimism down the road of publication of UFR reports, given the potential consequences, but overall we believe that better information to markets could prove highly beneficial to program countries if they wish to benefit in full from the catalytic effects of Fund-supported programs.

Concerning PRSPs, we agree that the staff should not recommend Board endorsement unless these documents are published, but like Mr. Wijnholds, we would find it awkward if PRSPs are brought to the Board without staff endorsement. So, if the intention is to make publication mandatory, so be it, for the sake of public discussion in the concerned countries, and in line with the participatory nature of the PRSP exercise. In the same vein, publication of PRSPs in languages other than English—and certainly in the local language—would make sense in light of the required participatory process.

Concerning policy papers, we agree with the staff's proposal, which represents a stronger involvement of the Board in the publication decisions, and will enable the Fund to live up to the standards it is setting for its members in terms of transparency. Like other speakers, let me add that increased publication of Fund papers will require an effort to draft these documents in accessible and plain English rather than the Fund's nomenclature that we are accustomed to reading.

Regarding the guidelines for Fund's publication policy, we can go along with the proposals. On the proposed elimination of summings up for UFR cases, I would be inclined to follow the staff's proposal in the hope that it would help streamline our late-evening combined Article IV-UFR-HIPC discussions. But at the same time, I am rather sympathetic to the arguments presented by Ms. Lissakers, Mr. Faini, and Mr. Chelsky regarding the usefulness of the UFR summings up in terms of internal transparency, and I could go along with their suggestions, if there is consensus.

To conclude, let me say again that, with the benefits of hindsight, the Fund has achieved an impressive silent revolution during the past few years. Transparency has in itself become a standard and probably the most important of all. Of course, as it has been said, transparency is not an end in itself, and more information does not necessarily equal better information. However, we will need to assess carefully in a year from now the advantages and consequences of our strengthened transparency policy. I hope that we, on that occasion, will be able to conclude that the increased availability of information has helped improve the economic performance of our membership and that the private sector is making efficient use of the additional information.

Mr. Portugal made the following statement:

I welcome this opportunity to discuss the Fund's transparency and publication policies. We have always been in favor of public disclosure of statistical data, of official decisions, of policies that have been adopted, of official targets, and all types of similar objective information, because we think this is the type of information which markets need in order to function better, and which citizens and the public need to hold decision makers accountable. These are the two major purposes of transparency. However, we make an important distinction between publication of objective information, and the disclosure of opinions, assessments, policy advice, analysis about risks and vulnerability, and other subjective information given to the Fund on a confidential basis.

The merits of publication of subjective information is less clear to us, and the potential costs are higher, especially in situations where there is an asymmetric impact. These considerations have led us to support initiatives such as the publication of LOIs, TMUs, PINs, summings up of policy discussions, and PRSPs. However, these same considerations have led us to oppose the publication of Article IV staff reports, given that they contain both objective and subjective information. We are concerned about the tension between candor and transparency which in the long run could negatively affect the behavior of those involved, and thereby harm the objectives of transparency.

The second concern we have is related the existence of important asymmetries between Fund members with respect to the impact on markets of the disclosure of Fund opinions. The Fund's views on industrial countries, or on developing countries which do not yet have access to financial markets do not have the same impact as in the case of emerging market countries, or countries that are in crisis and need Fund financial assistance. For this second group of countries, the Fund's opinion, advice, assessment and forecasts—whether right or wrong—have a much more important impact, and the costs of "getting it wrong" equally greater. While the pilot project on the publication of Article IV reports has not revealed any significant loss of candor and quality, this is still not sufficient to totally dispel our concerns. While the sample of countries participating in the pilot project is quite large—and includes three countries in my constituency, namely Tobago, Trinidad, and Haiti, all which had good experiences—we think that the sample of participating countries is overweighed in favor of industrial countries and developing countries that have not yet gained access to financial markets. The number of emerging market participating is small, which is a concern, since their participation would have made the pilot project more relevant. In fact, the relatively low participation of emerging market countries could indicate that our concerns are valid.

Indeed, while most countries participating in the pilot did not see any problems in terms of a loss of candor of the Article IV discussions, I noted that Mr. Cox in his work referred to the fact that countries which had decided not to participate in the pilot project had indicated that as a central reason for not participating. This is mentioned in the supplement, but not in the main report. In this respect, I would like to join Mr. Wijnholds in not only complimenting Mr. Cox on his work, but also in asking that his report be circulated in full to Board members.

The pilot project also revealed some worrisome trends on issues relating to the prevalence, extent, and nature of requests for corrections, deletions and additions to Article IV staff reports prior to their publication. The number of requests was much higher than in the case of non-published reports, insofar as 66 percent of all countries publishing staff reports made such requests. These pressures come mainly from industrial countries.

Accordingly, I agree with the suggestions made by the staff in box 2 of the main paper which are aimed at preventing staff reports from becoming negotiated documents. However, I wonder if this will be sufficient. While it could reduce pressures for editing staff reports that are to be published, governments might either withhold information or simply refuse to publish their reports once they realize that it has become more difficult to edit reports.

Other evidence which I find worrisome is the tendency to draft Article IV reports to cater for audiences other than the Executive Board. Here again, I agree with the staff's suggestions that the authorities and the Executive Board must remain the audience of Article IV reports.

Having said all that, we nevertheless agree to make permanent the voluntary publication of Article IV staff reports, as it is impossible to reverse the decision. Indeed, the cost of doing so would be very large.

However, because of the still unresolved problems and concerns, we are not prepared to support the proposal for voluntary publication of UFR reports, staff-monitored program reports, and the joint staff assessments of PRSPs. The problem of conveying politically sensitive information would become even more intractable if we publish all these reports. This has not been satisfactorily dealt with by our deletions policy. Accordingly, I agree with Mr. Wijnholds that a separate vulnerability assessment might be a good idea.

Another difficulty is the question of how to describe risk in reports concerning the use of Fund resources. Here, the staff suggests that risk assessments be included in reports because they are consistent with the recommendation of the use of resources. To me, that is a truism, and I do not understand the staff's position on this issue. I fear that it will not entirely solve the problem, because if there is one area where people have widely divergent views, it is precisely the issue of risk assessment. Accordingly, there is always the possibility that what the staff refers to as "a balanced presentation of risks" could be perceived differently by markets, thereby affecting negatively the implementation of Fund-supported programs.

The staff proposes a general publication policy based on a voluntary, but encouraged, publication. Since we are talking about transparency here, let me say that I it is not very transparent to have a decision that is both voluntary and encouraged. It should instead be truly and totally voluntary. Also, I am not quite sure how the staff would apply encouragement—would it manifest itself as conditionality or in pressure from large shareholders? The Fund is a very powerful institution, especially in developing countries, which are most in need of Fund resources. These countries might find the "encouragement" to be almost irresistible.

For this same reason, I am not in favor of the suggestion that publication of PRSPs should be a condition for the staff recommending their endorsement to the Board. While I am in favor of publishing PRSPs, it should still be voluntary.

With respect to the deletions policy, I have already made my opinion clear: I support Mr. Taylor and Mr. Wijnholds 's suggestions for a more inclusive deletions policy.

With respect to waivers, we would like to make a distinction between waivers of nonobservance and waivers of non-applicability. We do not that the latter should be published, as they often are needed to address delays in missions or in the completion of staff reports, or are due to changes of the Board schedule. Furthermore, the external public might not recognize the differences between waivers of nonobservance and of non-applicability.

I agree with other Directors that we should not discontinue the UFR summings up. This is a new policy that has been working well, and it is important to reconcile the objectives of achieving both internal and external transparency.

With respect to the publication of policy papers and PINs, I was inclined to support the staff's suggestions until Mr. Prader pointed out that we do not yet have a policy on that, so I will refrain from taking a position on this issue.

Finally, I would like to agree with those who said it is important to have documents published in languages other than English. The Fund does a lot for English speakers, but very little for people speaking other languages. This is unfortunate for an international organization, and I agree with Mr. Collins and Ms. Lissakers that certain documents, such as PRSPs, LOIs, and TMUs, should be written in the countries' own language.

After adjourning at 1:10 p.m., the Executive Board reconvened at 2:50 p.m.

The Chairman stated that it was important to arrive at a consensus on the deletions policy, and asked to staff to comment further on that issue.

The staff representative from the Policy Development and Review Department stated that the staff remained of the view that a narrowly defined deletions policy was in the best interests of the Fund. A more inclusive deletions policy would run the risk of unraveling the entire policy. However, the staff was sympathetic to the concerns expressed by Mr. Portugal and Mr. Wei. Mr. Wei had mentioned an example relating to weaknesses in a country's banking sector which, he argued, ought not to be made public. As the staff agreed that information of that nature should be regarded as market-sensitive, it would accordingly fall within the framework of the deletions policy proposed by the staff. While the definition of market-sensitive information was normally interpreted as referring to exchange rate and interest rate policy only, it also covered cases where information relation to the banking sector were concerned, such as when a particular bank would be closed. The staff would carefully monitor the implementation of the deletions policy over the coming months, and would stand ready to revise the policy, should that prove necessary. However, there had been no cases so far that warranted a revision of the current policy, and the staff did not therefore see a need to include language from the side letters policy. Also, it was difficult to conceive of a situation where the staff report would contain the same language as a side letter.

Mr. Zoccali made the following statement:

We commend staff for the comprehensive review papers provided and concur with other Chairs that very significant progress has been made in recent years to enhance the transparency of the Fund and the more important embracing by member governments of the principles of openness in policy making.

The results of recent decisions taken, including to conduct the pilot project for the voluntary publication of Article IV staff reports, have exceeded expectations not least because of the limited loss of candor thus far. Nonetheless, as noted by some authorities and most mission chiefs, the real test of openness would be in the first consultations after the initial release of staff reports or in economic downturn situations. Similarly, we should keep in mind that non-pilot participants account for about two-thirds of the Fund's membership.

As staff mention in the in their report, transparency is not an end in itself. From this angle, we come to the conclusion that the Fund's transparency policy should avoid disclosing everything to the outside public, knowing full-well that different data definitions matter and that medium-term and vulnerability scenarios are subjective and unambiguously linked to the assumptions employed in the analysis. In this regard, the broader view offered by Mr. Taylor and Ms. Ongley in their gray to guide the development of the Fund's transparency policy seems more in step with the dependence of Fund analysis on the information provided by members and the importance of maintaining the medium of the Fund for candid and timely discussion of issues of mutual concern. These are unique characteristics of its relationship with members which should be preserved.

More specifically on the proposed simplification of the Fund's publication policy in Box 2,of SM/00/190, we attach utmost importance to the principle of voluntary release of Article IV and combined Article IV/UFR reports. We see the staff's proposal as a valuable attempt to articulate a more coherent Fund publication across different classes of reports. However, the procedures for encouraging members—in the conduct of Fund surveillance and support for programs—to develop the internal processes to benefit from transparency still remain in our view less than transparent. Having said this, we agree with the presumption in UFR cases that LOIs, MEFPs, TMUs and I-PRSPs, and PRSPs should be published, as these reflect the policy intentions of the authorities who ultimately bear the responsibility for securing broad support for their policies.

The real test for the new policy is whether it serves to reconcile over time greater openness in publication without losing candor in all staff reports vis-à-vis their primary audience which should be the Executive Board. In this regard, Mr. Shaalan and Ms. Farid, rightly note that applying the uniform deletions policy suggested in Box 3 to account for market sensitivity " is easier said than done", as recent experience attests. Moreover, the widely shared view from the survey of market participants, authorities, civil society, media and many Executive Directors revealing that the dissemination of the Fund's policy analysis, conclusions of vulnerabilities or prospective policy recommendations would not have the same impact in larger and advanced economies. We would add to this asymmetrical impact category, countries in situations of distress, suggesting to us that highly market and politically sensitive references going beyond exchange and interest rate matters, that could hamper program implementation particularly in this latter group of countries should not be approached mechanistically in Article IV and UFR staff reports, LOIs or MEFPs.

It is precisely to avoid reopening the flood gates to use of side-letters and to encourage increasing disclosure that we concur with Mr. Wijnholds and others on the merits of retaining some discretion for management, to deal with judiciously flagged references by the authorities and subject to periodic Board review to keep within the spirit of an effective deletions policy.

Particular caution should also be taken with the publication of subjective staff assessments or indicators of vulnerability given the state-of-the-art data and methodological limitations and the sensitivity of such exercises to the assumptions used. From this angle, we are attracted to the suggestion that vulnerability assessments and indicators be, at this stage, placed in a separate annex outside the Article IV report, particularly in UFR cases of distress where multiple equilibria are possible. Similarly, while the analysis of economic developments and trends should remain the sole responsibility of staff, it is important that such assessments of policy and vulnerability, including their assumptions be sufficiently discussed with the authorities beforehand, to reflect on the risks in balanced fashion and in so doing facilitate orderly adjustment. The role of mission concluding statements has also differed across the membership. At this stage, our reading is these have not constituted a sufficiently generalized practice, do not warrant automatic dissemination and should be accompanied by a press release of the authorities in case of difference of view. We would also agree with Mr. Portugal that some distinction should be introduced regarding the publication of waivers of non-applicability as opposed to waivers of non-observance.

With respect to voluntary publication of stand-alone UFR staff reports, we remain uncomfortable with the idea of extending their publication, even voluntarily, given the difficulties associated with nuanced explanations of financing prospects, data limitations governing capital account transactions and, more significantly, the potential consequences of releasing such reports for UFR countries precisely at the time when they may be facing the most serious manifestations of distress. As there is no generalized prescription for catalyzing market confidence in such situations, we consider that more work is required on the format for UFR staff reports before any decision is taken regarding their publication. Another issue worth analyzing further relates to the incentives to safeguard against excessive pessimism or heightening of risks in staff reports which would also be intended for a wider audience than just the Executive Board. As other Chairs, we look on the development of the Fund's policy on transparency as a one way street leading to greater openness, where backsliding is undesirable and where this would be avoided only if all members perceive that they have an equal opportunity to benefit from the process. We do not see this to be the case with the treatment proposed for UFR reports. If pressed on this matter, we would lean in the direction of Mr. Taylor and Ms. Ongley of: publication with a minimum six month lag, applied flexibly according to particular country circumstances, and with the caveats that it not be "encouraged" and that it be accompanied by a policy on deletions that is somewhat more inclusive than that proposed by staff.

Regarding policy papers and other documents, we generally concur that the case by case pragmatism of the present policy has served the Fund well.

We also agree that a review of experience with the Fund's transparency policy in general should be conducted after one year focusing on the quality of the policy dialogue with the Fund. Since this is an on-going process it should assess carefully not only its impact in terms of raising awareness regarding the principal issues confronting the institution but also the contribution of the policy of voluntary release of staff reports to sharpening the economic policy trade-offs confronting individual members and, as importantly, to securing broader support for measures that might be needed.

Lastly, we can generally go along with the other suggestions summarized in Box 4 of the main paper. In this regard, we would underscore the importance of developing fully a policy for the publication of FSSAs which incorporates authorities' right of reply, and of facilitating publication of documents in languages other than English as a means of ensuring increased participation and ownership and as importantly comparability given the intricacies and nuances of the language used in Fund staff reports.

Mr. Jadhav made the following statement:

We commend the staff for an excellent set of documents on a subject of great contemporary relevance. As noted by Mr. Wijnholds and others in their Gray statements and reiterated by the Chairman this morning, we have indeed come a long way in furthering Fund transparency and the debate has appropriately shifted from which documents to publish to discussing the limits of transparency. This is precisely the stage where greatest caution needs to be exercised.

Turning to the specific issues for discussion (p 32-34) we are in agreement with the staff 's main objective, viz., to define a general publications policy that is consistent, simple and transparent. However, we have some serious reservations regarding the staff proposals.

Like Mr. Shaalan, Mr. Taylor and Ms. Ongley and others, we feel that the crucial issue of candor—transparency trade-off has not been satisfactorily resolved. We are also not persuaded by the staff's observations that "there is little market sensitive information in Article IV staff reports given the lapse of time between the discussions and the publications of the report." And that "information released in leaked staff reports was potentially more disruptive than that published systematically and simultaneously to all players." We feel that the limited participation of countries from the Asian and Latin American regions in the pilot project call for caution against such generalizations.

Furthermore, as noted by the staff paper, there were pressures during the pilot project, from industrial countries in particular, not to include certain information in the staff reports and to add material or to recast the policy discussions given concerns for public impact. This phenomenon underscores the possibility of "negotiated documents" which would undoubtedly undermine the Fund's surveillance functions.

In view of these considerations, our chair would endorse a strictly voluntary (i.e., not encouraged) basis for the proposed Fund policy on the publication of Article IV reports.

Our chair is also not in favor of the publication of medium term projections and vulnerability assessments for the present. As pointed out by Mr. Shaalan, the Board's understanding has been that more work on their usefulness is needed before their publication is contemplated.

UFR Reports are among the most sensitive Fund documents wherein the concerns regarding candor-transparency trade-off would probably be most pronounced. As recognized by the staff paper, there also is a tension in presenting the balance of risks. While an eye on publication could create an incentive to adopt an inappropriately positive tone, emphasis on the risks to a program may invoke reactions that could be counterproductive.

Our chair would prefer a more gradual approach in publication of UFR reports. Ideally this issue should be deferred until more evidence is accumulated on the impact of the policy in respect of publication of Article IV reports. However, if there is a substantial consensus in the Board in favor of publication of UFR reports, our chair would be willing to go along provided that publication is strictly voluntary, and sufficient lead time is allowed to ensure that country-specific parliamentary privileges are respected.

Mr. Zurbrügg made the following statement:

Today's discussion is very important for our Chair. Over the past years we have strongly supported all the initiatives to enhance the transparency of the Fund in all its dimensions. At various stages of this endeavor, we often would have liked to speed up the process. However, reading the excellent set of staff papers which provide us with a detailed review of our experience with transparency, in particular with the pilot project for the voluntary release of Article IV staff reports, it is difficult not to be impressed by the progress. Most likely anything more rapid would have been difficult for the institution to absorb.

To be quite frank, I was somewhat worried about this review. The pilot project was a crucial step forward in our transparency policy and many Directors raised concerns as to the possible impact of publication on the candor of the reports and on the confidential relationship between the Fund and its members. These were legitimate and extremely sensitive concerns. To be able to continue down the road of publication with a broad support of the membership, it was imperative to have unambiguous results from the pilot project. I was not sure whether we would get such results.

I think it is fair to say that the pilot project was a full success. The most striking evidence for this success has been the participation of no less than 66 member states representing about one third of the membership and more than two thirds of the votes. Let us not forget the desperate phone calls from staff to our offices to ensure the minimum participation of 20 countries. In terms of the key concerns, the results of the ex post evaluation it is very encouraging. Overall, for a large majority of the participants, Article IV consultations under the pilot format was just business as usual. This was certainly the case for both the Polish and the Swiss authorities. What I also found very encouraging was the positive effect publication appears to have had on the interest of authorities to conduct the consultations and their degree of preparation. Staff efforts also seem to have been affected positively, contributing to more differentiation and precision. These developments will contribute to more effective surveillance.

Let me state at the outset that this Chair fully supports the staff's proposal for a general Fund policy of publication on a voluntary but encouraged basis as summarized in Box 2. By putting this policy on a voluntary basis we recognize that for a part of the membership a great leap in transparency cannot be achieved immediately. Although the evaluation of the pilot did not substantiate many of the concerns about greater transparency that have been voiced around this table, we must be careful not to brush them aside too early.

On the "loss-of-candor" concern, 80 percent of pilot country authorities considered that publication did not have an impact. While the large number of participants has reduced possible sample bias, we will have to observe “candidness” carefully with an increasingly more representative sample and in a more difficult global economic framework.

The other argument that this Chair takes very seriously is the possible trend toward negotiated documents. I thank staff for their frank description of several instances of pressure from the authorities to change, delete or add material to staff reports. While this phenomenon is certainly more of a teething problem rather than an intrinsic flaw of our new publication policy, it is crucial to avoid any concessions in this regard. This underscores the importance of adopting and sticking to the principles of the Fund's publication policy and continuing the strict policy on deletions. This requires discipline from both sides, the authorities and the staff, to resist the temptation and the pressure to allow staff documents to become negotiable.

Periodic reviews of the experience with transparency and its potential effects on the Fund's policies will be crucial to follow up on these important concerns.

Turning to more specific comments. On publication of staff reports, it goes without saying that I support moving to a policy of voluntary publication of Article IV reports, and combined Article IV/UFR reports. I also strongly support the staff's proposal to publish stand-alone UFR staff reports. While I recognize that the publication of UFR documents raises some different issues from those raised with the publication of Article IV reports, these exercises are not fundamentally different. I do not think that the concerns voiced against publications of UFR staff reports outweigh in any way the huge benefits of publication. The same publication and deletions policies used for consultation reports must be applied to the publication of UFR staff reports.

I also support all publication decisions proposed in Box 4, with the exception of phasing out UFR summings up in favor of only publishing chairman's statements. Although I agree that listening to up to four different statements at the end of a Board discussion can be tedious, I don't think it is worth sacrificing UFR summings up. They are clearly more representative of the different opinions voiced during the board discussions and, like Mr. Wijnholds, I don't think minutes are a valid substitute.

Glancing over Table 1, I also have difficulties to understand the staff's proposal not to publish texts of arrangements at this stage. The argument referring to possible future changes in these texts as a result of our decisions to strengthen the misreporting guidelines is not very convincing.

Finally, on the issue of publishing documents in other languages than English. No doubt, I can see the merit of presenting documents like PRSPs in the language of the relevant country. However, I was assuming that in many cases PRSPs are already in the national language given the broad consultation upon which they are based. I am not sure to what degree the Fund should be involved in translating, but it should certainly stand ready to help make these documents as accessible as possible. Given the potentially large demand for translations of Fund documents, I think it would be useful to discuss this issue in a broader framework of the Fund's external relations' effort with an appropriate analysis of the budgetary consequences.

The Chairman noted that the budgetary implications of translating Fund documents into other languages on a regular basis must be carefully considered.

Mr. Esdar made the following statement:

At the outset, I would like to thank Staff for presenting comprehensive papers on the review of the Pilot Project and other transparency issues. Indeed, on transparency we are moving forward. The discussion today hopefully will strengthen this momentum.

The pilot project has been a full success, indicated by a large number of voluntary participants which has exceeded expectations. The response from market participants has been favorable and negative effects in particular concerns about a loss of candor in discussions—feared by many—have not materialized. Also, our own experience in Germany with publication of the Article IV document 1999 has been positive. Therefore, we welcome and strongly encourage a shift to a permanent policy of voluntary and encouraged publication of Article IV and combined Article IV/UFR-reports. We also support the idea to extend the publication policy also to stand-alone UFR-staff reports as this will further improve and strengthen transparency and ownership of programs. In some countries internal procedures for more transparency will have to be established and we encourage those authorities to take the necessary steps.

We endorse the guidelines and Principles for the Fund's Publication Policy outlined in Box 2. It will be crucial to have an agreed set of guidelines for publication, especially with a view to corrections and updates. However, as indicated by Mrs. Lissakers, the policy description in the first bullet is very much on the defensive side: The current pro-active stance of Fund's transparency is not fully reflected, especially the presumption of publication of certain documents should be underlined, also the firm stance with regard to policy papers and UFR documents. I strongly endorse the Principles which stress the need to limit corrections to factual matters and to update staff reports by supplements or statements; documents should not be modified after they have been circulated to the Board. Otherwise we would engage in a redrafting business.

A review of these new, i.e. permanent procedures, in one year might be appropriate.

Even under the presumption of greater transparency, Fund documents should be primarily drafted for Board purposes. Nevertheless, it should be possible to strike a fair balance between board requirements and an outside reader-friendly design. In any case, it should be clear for outside readers, whose views or analyses are expressed and published—staff, management or board. Especially in the case of Staff Monitored Programs it should be clear, that such programs are not approved by the board.

We continue to support publication of PINs, REDs and documents without delay. A ten day expectation for PINs might be appropriate – even challenging in some case – but, should not be exceeded without convincing reasons. Even in cases, in which an Art IV or UFR - document can not be published because of delays caused by the approval of the authorities, PINs should be published as soon as possible to provide most recent information to the markets.

Potential tensions could come up between the frankness and market sensitive information in LOIs/MEFPs, UFR-documents or TMUs. The papers should be published in their entirety. To delete certain elements because they might be unpopular, would not be in line with transparency and frankness requirements. We go along with a uniform deletions policy outlined in Box 3. In rare cases highly market sensitive information should be deleted and/or communicated to the board in “side letters”. We do not, however, support the idea of extending the Deletions’ Policy to “political sensitive issues” as those will undermine the general objective of transparency and ownership. If countries want to keep certain political decisions behind closed doors, they should go the route of non-publication. Also, it will be important to prevent any expectations or pressure on board decisions by publication on the Fund’s web site. Therefore, LOIs/MEFPs should not be published until the board discussion has taken place.

Publication of PINs and Documents on policy issues is still at an initial stage. Therefore, it might be premature to draw final conclusions. However, we are in favor to continue with the present procedures; PINs on policy issues are important instruments to inform markets about crucial and fundamental discussions, provided policy discussion had reached completion or a stage of sufficient development that informing the public would be useful.

We go along with the proposal to require publication of Interim-PRSPs, PRSPs and Joint staff assessments before Board discussion. Translation of such documents into other languages might be desirable, especially with regard to ownership.

Finally, we are very much in favor of streamlining the Summing Up– process in combined UFR cases. A single statement by the chairman might be appropriate and sufficient to reflect the sense of the board discussion. We should get rid of the troublesome and time consuming preparation and reading of several similar "Summing Ups" of Board discussions for different purposes.

Mr. Prader said he disagreed with Mr. Esdar that the pilot project had been a complete success. There were certain issues that remained of concern, including the tendency of industrial countries to negotiate the content of staff reports before their publication.

Mr. Wijnholds noted that he disagreed with the staff on how to address concerns of members concerning the publication of market-sensitive information. In the supplement to the staff report, on page 31, the staff had listed a number of examples of requested changes to staff reports. The supplement was based on a survey carried out by the staff. It mentioned, for instance, that about 26 percent of the total number of requested changes had contained market sensitive information that might be included under the deletions policy. However, the staff had also referred to income policy as being market sensitive, although that was normally included in the definition of what constituted market-sensitive information. 70 percent of the remaining requested changes fell under the side letter policies. Such requests included references to other sensitive issues, such as bank capitalization and solvency, and central bank liquidity provisions to distressed banking systems.

Mr. Collins remarked that the pilot project had been a success in so far as it had demonstrated the advantages and the pitfalls of transparency, and insofar as it had succeeded in attracting a large number of participants.

Mr. Esdar remarked that, while his chair would be prepared to be flexible in interpreting what constituted market sensitive information, he remained opposed to including a reference to politically sensitive information in the deletions policy. What would happen, for instance, before elections, when everything became politically sensitive?

Mr. Mozhin made the following statement:

> I welcome this discussion on review of the Pilot Project for voluntary release of Article IV reports and other issues in Fund transparency. I think the progress in increasing transparency in Fund activity and its relations with the member-countries has been remarkable. At this stage, it is important to make sure that the gains achieved so far are preserved and at the same time to continue our uneasy search for the right balance between transparency objectives and efficiency objectives in the Fund relations with its member-countries.
>
> I believe that so far the results of the Pilot Project for voluntary release of Article IV reports have been rather encouraging. About one-third of the total membership representing all regions and groups have indicated their intention to participate in this pilot project and 50 reports have already been published. According to the staff, so far the quality and frankness of the discussions have not been negatively affected and have even improved in some cases. However, the concern raised by Mr. Shaalan and Ms. Farid in

their Gray regarding the risk that candor of Article IV consultations could be affected by the publication of staff reports over time, is noteworthy.

I believe that it may be premature to come to any final conclusions about the benefits from publications of Article IV reports on the basis of a solitary trials even if they have been made by 50 countries. Also, I'm still not in a position to assess our own experience in this area, as Russia is participating in the pilot project only this year and will publish its Article IV report only after our discussion in mid-September. Unfortunately, last year the initiation of the Pilot Project took place when the Article IV consultation discussion with Russia had already been well under way.

I strongly welcome the effort to streamline our publication policy undertaken by the staff. I think we should avoid having individual publication policy for individual Fund documents. Therefore, I support the emerging two-pronged approach. I believe that there should be a presumption of publication for all documents prepared by the authorities and reflecting their ownership of their economic policies, such as LOIs, MEFPs, TMUs, PRSPs (my understanding is that "presumed" does not yet mean "mandatory"). As for staff papers, such as Article IV reports, UFR reports, REDs, JSAs, Selected Issues papers and Statistical Appendices as well as PINs following Board discussions on Article IV reports, they should be allowed for publication on a voluntary basis. However, I would like to underscore here the importance of adhering strictly to voluntary principle and would also like also to support the para 57 of the staff paper which states that "the operational implications would be that, while the Fund would allow voluntary publication, it recognizes that for some members this will be a longer-term objective". Any pressure on member-countries that are reluctant to publish their reports should be avoided.

I have two specific suggestions.

First, I am surprised that at this stage Texts of Fund Arrangements are not proposed for release on a voluntary basis. These documents reflect final agreements between the Fund and country authorities, and what they say is that if all performance criteria were observed, the country would be eligible to make purchases on certain schedule. I think that, since we are in favor of publication of the authorities' policy commitments and obligations in the context of Fund programs, we should be ready to disclose (on a voluntary basis) also Fund obligations, if the authorities find it desirable. Perhaps, the staff could comment on this.

My second suggestion is related to the issue of deletions. I welcome the proposed uniform deletions policy and believe that deletions from released staff reports should be minimal and limited only to highly market sensitive information. It is important not to allow deletions to misrepresent staff criticism of particular policy measures implemented or intended by the authorities. Perhaps, one way to address this issue of deletions and the risk of having negotiated staff reports would be to abolish the rule that the authorities should provide their consent to publication well in advance before they see what is in the staff report. Perhaps, if the authorities retain the right to decide to publish or not to publish until after they've seen the staff report, the possible negative motivation in terms of reluctance to be candid, or tendency to negotiate the language of the staff report could be mitigated. I realize that this is a rather controversial suggestion and I see it in terms of choosing a lesser evil. If the choice is between misrepresentation of staff analysis and no publication at all, my choice would definitely be no publication. Here again, I would appreciate staff comments.

I endorse the principles for publication of staff reports and other Board documents described in the Box 2 of the main staff paper.

With respect to Fund policy papers, I believe that release of information regarding policy initiatives of the Fund would be beneficial in increasing public understanding of the Fund policies. Thus, I support the maintenance of existing practices, and also go along with the proposal that the cover notes to staff policy papers indicate the staff's preliminary recommendation on publication of the policy paper. I agree that the papers be published with PINs reflecting the Board views on the issue discussed.

Mr. Alosaimi made the following statement:

Let me start by thanking staff for a well written set of papers on reviewing the pilot project for voluntary release of Article IV reports and other issues in Fund transparency. In this regard, the results of the review are likely to have been affected by the generally good economic times and the inherent sample bias due to the fact that countries who volunteered are likely to have fewer difficulties related to publication. Therefore, it is critical to interpret the largely favorable response from participants with extreme caution. One also has to take into account the much higher level of corrections for published staff reports and the pressure on staff to add or delete information or to recast the policy discussion. Staff's statement that "generally, this pressure was resisted" indicates that in some cases it was not. Staff comments would be appreciated. Moreover, the staff paper states that, "some authorities and most mission chiefs thought that the real test of openness would be in the first consultation after the initial release of staff reports, a view shared by most media and market participants."

Taking all of these considerations into account, a decision to move to voluntary publication at this time may be premature. However, given that the Fund has embarked on this slippery slope by permitting publication under the pilot project, I agree with Mr. Portugal that turning back is very difficult.

Therefore, I associate myself with the statement by Mr. Shaalan and Ms. Farid, that emphasis should be on minimizing the negative effects of adopting a new publication policy. To this end, voluntary publication of Article IV reports should remain truly voluntary. In this regard, I can go along with staffs formulation of a publication policy on a voluntary basis but without reference to "encouragement" which is another word for pressure.

On the voluntary publication of stand-alone UFR staff reports, I agree with the views expressed in Mr. Shaalan and Ms. Farid's statement. Here, I am concerned with the blind linking of publishing and ownership. Now, if a country agrees to an economic program because it is convinced of its merits, voluntary publication could help build support for the program. However, if a country, due to economic need, agrees to a program that it is not fully convinced of and then is pressured to publish the program, such publication will certainly not increase ownership.

As for the proposed principles for publication of staff reports and other Board documents, as detailed in Box 2, I found many of the bullets in the Box, especially in Section II, operational. Thus, staff should review this Box again and take out the mainly operational issues. These operational matters should be left up to Management and Staff without micromanagement by the Board.

On summing ups following policy discussions, I do not see any need to change the current policy of publishing on a case by case basis.

Mr. Rustomjee made the following statement:

The set of papers before us provides a clear and thorough assessment of the experience with the voluntary publication of Article IV staff reports under the trial pilot project initiated last year, and on a wide range of issues associated with Fund transparency. We welcome these as well as the detailed comments and responses provided by staff this morning.

We broadly favor the voluntary approach to publication set out in the papers, but have several specific additional comments. Firstly, we find that the evaluation conducted by the external consultant, Mr. Winston Cox, on the basis of interviews that targeted a broad spectrum of the public, provides a welcome input to the review process and like others we congratulate him for his detailed and thorough efforts. However, the sample of countries selected for this exercise has been relatively small. In addition, the selected sample cannot, in our view, be said to be broadly representative of the membership as suggested in the paper. Regrettably, no country in the Sub-Saharan Africa appears to have been included in the sample, notwithstanding the participation of a fair number of these countries in the pilot project. I would welcome staff's comments

Regarding the pilot project on publication of Article IV staff reports, we agree with staff's proposal to make permanent the pilot project for voluntary publication. Review of the pilot project appears to lead to the general conclusion that the initiative has produced good results and that candor and openness in the Article IV discussions has not been constrained by the publication decision, an overriding concern manifested previously by many members. This is encouraging and welcome. However, like many early speakers today, I believe that we need to recognize, that so far, only about one third of the membership have adhered to the experiment and that it may be too early to assess or draw definite conclusions on its full impact. Like Mr. Wijnholds, we also take the view that we cannot rule out the possibility that the survey results suffer from selection bias. Indeed, many still share the view, including the staff and the market, that the second round of Article IV consultations following the release of the staff reports, will provide the real test of the prevalence of candor during the discussions. In this aspect we share the concerns of Mrs. Hetrakul and Mr. Shaalan regarding the possibility of incremental loss of candor as we proceed and would urge that this be actively monitored in the period ahead. Moreover, as indicated in the staff papers, some deletions and amendments introduced to staff reports go beyond what could commonly be perceived as being market sensitive information and appears to have been made to make the reports more acceptable to the market. This per se, casts doubts about the level of openness that will be guiding future consultations and possibly the integrity of the reports. In this regard, we will need to better preserve the non-negotiated character of staff documents.

It is also recognized in the paper that a large number of members, particularly from developing countries, did not participate in the pilot project. This, to a large extent, may have happened out of concern about the trade-off between greater transparency and the confidential nature of the consultation between the authorities and the staff. The members value the frank and candid discussions with the staff. This candor is fundamental in ensuring the high quality and effectiveness of surveillance, which we have become accustomed to and should be preserved above all other considerations. Furthermore, the fact that in some of these countries the Fund's influence is particularly strong, as the process of consultation remains possibly the sole source of economic advice and independent opinion, should not be underestimated. This is certainly the case in the overwhelming bulk of Sub-Saharan African countries. Mr. Cox's summary report also highlights the fact that participation results may have been influenced by the "good times/less good times" dichotomy. We believe that this aspect requires to be monitored more effectively and evenhandedly, as we believe that there is likely to be strong merit in this set of arguments. In light of these and other considerations, we believe that the choice for publication of staff reports and of the appropriate timing to do so, should remain the sole prerogative of each member country. Voluntary publication will also be more consistent with building confidence, preserving confidentiality, and strengthening the dialogue with Fund staff.

In our view, the publication of use of Fund resources (UFR) reports, with their sensitive information and details of medium-term targets, policy content, and risk assessments to the program can increase the chances of compromising the success of the program, particularly in smaller economies. Hence, like Mr. Shaalan, we think that a more prudent approach is justified in this case and our preference is to postpone any decision on this matter until a more thorough assessment of current practices on publication becomes available. Should, however, there be a consensus in the Board in favor of publication, our position is that it should be on strictly voluntary basis. Moreover, we would also favor a periodic review by the Board of actual deletions to published UFR reports, so as to develop a more effective deletion policy. We also fully share the views expressed by Mr. Taylor on the publication of UFR summings-up. In addition, we believe that the publication policy in use for the Technical Memoranda of Understanding (TMU) and on waivers have worked well and there is no pressing need to change them at this stage.

The proposals put forward by the staff for publication of policy papers seem to be generally acceptable. We can also agree with the staff proposal for periodic review of these matters. The publication of documents in languages other than English, is an appealing suggestion and we would support this, after due evaluation of the costs in terms of human and financial resources required.

On some additional issues raised in the report: Firstly we would not agree with a negative list approach, in which a list is published of members who do not agree to have their relevant documents published. This would be tantamount to a penalty, which would not be consistent with the cooperative spirit of this institution. Secondly, we find merit in Mr. Wijnholds' suggestion that a one-stop-shop be established entailing concentrating responsibility for publication of documents in a single person. Thirdly, we would welcome that the Board receives the full report of Mr. Cox, rather than the summary as currently provided. Fourthly, we do not concur with the proposal that there should be a presumption of publication of the JSA as suggested in paragraph 46. The rationale provided by staff is, in our view, weak and stands untenable. Furthermore, we have some concern about the principle of publication of JSAs, since its content could reflect the views of staff on aspects well beyond the ambit of our core mandate and in areas on which we may not yet have developed sufficient expertise to comment on. Here, Mr. Portugal's distinction between objective and subjective commentary is relevant. Fifthly, we would like to comment on an earlier suggestion that there should be mandatory publication of PRSPs and I-PRSPs, and also on the more moderate approach suggested by staff, of presumptive publication. We disagree with both approaches for the following reasons:

One, the PRSP device is after all "said and done" a new one. It is not even a year since the initiative was launched. We should not rush to the conclusion that it is the optimal device, although we can agree from the perspective of this Chair, that since its inception, there have been some valuable benefits from the PRSP process to the poorest members in our constituency which have requested to prepare these documents. However, not all members who have to produce these documents, have yet gone through the process. We would not yet rush to mandatory nor to presumptive publication, although we can recognize the rationale put forward by some colleagues for this approach; and we can see, perhaps, in another year when we have all learned a great deal more about PRSPs, that we could at this stage consider the merits of presumptive participation.

Two, mandatory publication is not consistent with the cooperative style of our institution and we can think of no better area where the Fund's cooperative posture should be clearly manifested than in our approach to understanding how member countries take charge of their responsibility to address poverty, an area where no one has the "right" answers and where everyone is still learning.

Three, mandatory publication will bring to the fore the full range of unresolved issues which we are trying to treat so sensitively in other areas of our publication policy and in other documents, including particularly the issue of candor and commitment to pre-specified time-frames. For these reasons, we would strongly urge that we apply a strictly voluntary mode for publication of PRSPs. Likewise, we take the view that PRSP publication should not be a precondition for endorsement by the Board. Like others, we believe that Board discussion of PRSPs should remain independent of publication.

We would like to emphasize our comments on the publication or otherwise of JSAs by referring to the paper on PRSPs-Operational Issues, SM/99/290, issued on December 10, 1999. The paper states on p.17 that "the report would also include a description of the participatory process followed in the preparation of the strategy". Our concern is twofold: firstly, we know very little about what an optimal participatory process is and are still in learning mode on this. We can be almost certain that adverse descriptive commentary on the participatory process, by staff, will effectively be judged by the media once the JSA is published. That would be the worst possible outcome and we should avoid this. The caution that we included from the start, that the report should not recommend acceptance or rejection of the participatory process, would be circumvented with external agencies using the Fund staff's comments to make their own case. Moreover, the same paragraph of the document we have referred to, indicates that the JSA would serve as the basis for recommending endorsement or rejection of the relevant PRSP strategy and thereby as the basis for Bank and Fund concessional lending to the country concerned. What is clearly contemplated in the paragraph on the

JSA is that it will serve as guideline for the Board in coming to a decision on how to proceed. It is therefore designed as an element in the build-up to a decision by the Board. If we want to publish anything we should publish the outcome of the Board's discussions, not the work in progress, which is effectively what the JSA constitutes.

In conclusion, our strategy for greater transparency through increased publication of numerous types of documents calls for a simplified and broad-based publication policy. The proposals contained in Box 2 of the staff paper provide a reasonable basis on which further improvement could be made although we agree with Mr. Wei that the words "and willingness" should be deleted from the first main point.

Mr. Rouai made the following statement:

We thank the staff for a set of well-focused papers on Fund transparency issues, which propose further steps to enhance transparency, based on an evaluation of the pilot project. We share the view that transparency is not an end in itself and should be used to enhance ownership, smooth the functioning of markets, inform the public, and expose Fund operations to external assessment. In this regard, to achieve a balanced transparency policy, symmetry of the information provided to the public and the private sector would need to be maintained. Every step to further transparency should be taken cautiously and be based on a careful cost benefit analysis. In this regard, we favor annual reviews of our transparency policy in order to ensure proper implementation and to take stock of our experience.

Our chair continues to support the various initiatives to promote transparency, including the voluntary publication of Article IV reports. We agree with Messrs. Rustomjee and Mr. Mozhin, who have proposed a simple general principle: documents originating from the authorities should be presumed for publication while the publication of documents produced by the staff should be published on a voluntary basis.

Our publication policies should be transparent, and evenhanded in its application. Like Mr. Shaalan and other Directors, we do not consider that using encouragement to solicit voluntary publication is helpful and even compatible with transparency itself. Like other Directors, we are concerned by the fact that most of the editing and deletion problems have arisen in connection with industrial countries. We can support the adoption of a uniform deletion policy and, like other Directors, we favor the inclusion of politically sensitive issues in the deletions policy.

We support the publication, on a voluntary basis, of Article IV and combined Article IV and UFR staff reports. We also support publication of stand-alone UFR staff reports, also on a voluntary basis, and with a review of the policy after one year. We support the staff proposal to streamline the current publication policy for policy papers.

Like other Directors, we see benefits in maintaining the summing up for UFR discussions. One way to streamline the summing up process would be to deliver one summing up for combined Article IV and UFR discussions. Consideration could also be given to discontinue the delivery of the press statement, provided an advance copy is delivered to the concerned Executive Director.

In view of the international nature of the Fund and current policies to improve outreach, we welcome and support the staff proposal to publish Fund documents in languages other than English. We are willing to consider positively the budgetary implications of such a policy.

Finally, a country in our constituency was not allowed to publish the concluding statement of a staff visit which took place outside the Article IV consultation process. The staff argued that current policy covers only concluding statements of Article IV missions. We would ask the staff to clarify this issue.

The staff representative from the Policy Development and Review Department noted that UFR staff reports included assessments of risk which were consistent with the recommendation for the use of Fund resources. That was done in recognition of the fact that there were risks associated with any Fund-supported program to the Board, including risks associated with program implementation and with program design. However, it was also clear that staff reports must not contain information that directly undermined the program, which was why the guidelines for UFR staff reports stated that the risk assessment must be consistent with the recommendation to make Fund resources available.

Mr. Collins remarked that he still thought it redundant to state that risk assessments must be consistent with the decision to make Fund resources available to a particular country.

Ms. Lissakers said it was only normal to include a risk assessment in UFR staff reports. The public ought also to be made aware of the downside risks to the program.

The staff representative from the Policy Development and Review Department remarked that the staff had not ruled out the notion that texts of arrangements at some stage could be made public and included within the Fund's general publications policy. However, there were two reasons for not including them at the present stage. First, the Fund's general publications policy might undergo further changes, and the staff wanted the opportunity to take stock of the experience gained before making any further revisions to the policy. Second, the staff wanted to limit the number of documents being published by the Fund at the current stage, as there was some confusion among the public about the status of the various documents.

The staff also did not rule out the inclusion of LOIs for staff-monitored programs in the “presumed publication” category at a later stage, so that the status of those documents would match the status of LOIs for UFR cases, the staff representative explained.

The proposed policy on PRSPs simply followed guidelines that had already been agreed by the Board in December 1999, the staff representative said. It was logical to presume publication for those documents, as poverty reduction strategies must be formulated through a participatory process according to the guidelines for the HIPC Initiative. The staff had decided against making publication mandatory, as the final decision regarding that matter ought to made by the authorities, rather than the Fund.

Ms. Lissakers said that the reasons provided by the staff for not publishing the text of arrangements were not wholly convincing. First, if those documents were not published for fear of confusing the public, the same argument might be made for other classes of documents. Second, it was true that waivers were granted often. However, making those waivers public might help the Fund streamline conditionality, thereby avoiding frequent waivers.

The staff representative from the Policy Development and Review Department noted that there might be references to both prior actions and side letters in the text of arrangements, both of which would complicate publication.

A specific suggestion had been made with respect to the timing of publication on the Fund’s web site, the staff representative continued. The staff agreed that the authorities should have the final say on when to publish those documents, and would revise the guidelines accordingly.

Mr. Wijnholds said he disagreed with some of the examples referred to by the staff as being less market sensitive, including limits on central bank liquidity provisions to distressed banks. Matters relating to central banks’ role as lenders of last resort were highly market sensitive. He wondered whether the seven cases of deletions from Article IV summings up listed in Annex V of the main staff paper referred to as politically sensitive would be accepted under the new transparency guidelines.

The staff representative from the Policy Development and Review Department replied that, in retrospect, too many deletions might have been granted under the deletions policy. In the end, whether or not to grant deletions was a matter of judgment. The Executive Board was ultimate guarantor that the deletions policy was implemented evenhandedly.

Mr. Rustomjee wondered why the staff had adopted a policy of presumed publication of joint staff assessments of PRSPs.

The staff representative from the Policy Development and Review Department replied that all joint staff assessments had so far been published, if not by the Fund, then by the World Bank. Given the presumed publication of PRSPs, it followed logically that joint staff assessments ought to have the same standing.

Mr. Rustomjee noted that joint staff assessments could be subjective in nature. Countries that had prepared PRSPs under difficult circumstances might find it difficult to address a negative assessment of their poverty reduction strategy, however valid and justified that criticism might be. Such criticism might dampen the enthusiasm for implementing the strategy.

The staff representative from the Policy Development and Review Department stated that the staff had simply used language on the publication of joint staff assessments that had already been agreed upon in the policy document on operational issues for poverty reduction strategy papers. In that document, it was envisaged that, in many cases, the authorities would choose to publish that PRSP in advance of Board discussions. It was also envisaged that the press release summarizing the outcome of Board discussions would be published on the Bank and Fund web sites together with the PRSP and the joint staff assessment.

The participation of countries from Sub-Saharan Africa in the pilot project had been limited, even though the staff had attempted to encourage participation from that part of the world, the staff representative remarked. One reason was that the timing of Fund documents relating to those countries had not been favorable.

Another staff representative from the Policy Development and Review Department stated that the staff had discussed the limited participation of Asian and Latin American countries in the staff paper. However, it was worth noting that 66 countries had decided to participate in the pilot project. That was an impressive figure, given that the Board had agreed that 20 countries was the critical mass needed for proceeding with the project. Emerging market economies had made up 25 percent of the participants.

Ms. Ongley said that her chair had proposed to introduce a more systematic means of addressing requests for deletions, which related to politically sensitive matters. The staff had argued in favor of building the policy on past practice. However, it should be noted that the experience with LOIs and MEFPs had not been particularly successful, and did not therefore bode well for such an approach.

Mr. Rouai wondered whether the staff could elaborate on the policy for making public mission statements for non-Article IV missions.

The staff representative from the Policy Development and Review Department replied that the staff had proposed that such statements be issued on a voluntary basis. The same rule ought to apply to interim missions. However, it should be noted that the staff had urged caution in the use of mission concluding statements; in many cases, a press release by the authorities or jointly with the Fund might be more appropriate.

Mr. Chelsky wondered whether the staff could confirm that it did not intend to limit the Board's flexibility to determine the modalities for making public the content of policy discussions. In the staff report, it was proposed that PINs be the vehicle of choice for communicating Board deliberations on policy issues. However, press releases might sometimes be more appropriate, and it was therefore important to allow for some flexibility.

Mr. Mozhin noted that he had proposed to abolish the rule that required country authorities to give their consent to publication even before the consultations themselves had started. It might be more fruitful to allow the authorities to read the staff report before they made a decision on whether to publish or not. Such a rule would create an additional incentive for countries to enter the transparency process, especially when their economies were doing well. Once they had agreed to publish, it would be difficult for them to reverse that decision. By having the authorities give their consent to publication before they had even read the staff report, the Fund was often forcing them to chose between two options: either renege on their transparency pledge, or attempt to edit the staff report before it was published, thereby undermining the Fund's deletions policy.

The staff representative from the Policy Development and Review Department remarked that, with the completion of the pilot project, countries would no longer need to give advance notice of their intention to publish staff reports. The staff had instead proposed that the authorities communicate their decision on publication to the staff before the Board meeting, and that the cover note of the staff report state their intentions in that regard. The staff had not yet considered whether to allow countries to publish documents that had been issued prior to the commencement of the pilot project.

The Chairman remarked that, while the pilot project had confirmed the desirability for increased transparency, it had also raised issues relating to the Fund's deletions policy, the relationship between objective and subjective analysis, and whether publication should be voluntary or encouraged. A broader review of the Fund's general publications policy might be needed, although the timing of such a review would have to be carefully weighed, in order not to overburden the staff.

Ms. Lissakers noted that a widespread consensus on how to implement transparency had emerged since the last Board meeting on transparency-related issues. During the meeting today, most Directors had expressed support for the revised guidelines, as set out by the staff. While questions might emerge on specific issues during the course of the year, there was no need to have a new review soon after the completion of the review of the pilot project.

The Chairman noted that, while he agreed the guidelines adopted by the Board would be most helpful in the near future, they remained "work in progress'; as such, it might not be advisable to publish them in their current form. It would be better to await a more thorough review of the Fund's publication policy.

Mr. Esdar suggested that the Fund's publication policy for policy papers ought to discussed within the next six to nine months, while a more thorough review of the Fund's general publication policy ought to be done in 18 months.

Mr. Wijnholds said he agreed with the Chairman that a review of the Fund's general publications policy ought to take place before the Spring Meetings in 2001.

Mr. Collins remarked that, while he did not object to a review *per se*, one of the key components of the Fund's publication policy was its deletions policy, which could only be revised in a meaningful way in light of actual experience. A year would not leave enough time to gather sufficient evidence and experience.

Ms. Lissakers remarked that it would be important for the Board to agree on a summing up for the meeting, in order to provide guidelines to the staff on how to implement the various aspects of the transparency policy, including the deletions policy.

The Chairman made the following summing:

> Executive Directors welcomed the opportunity to review the experience with the pilot project for the voluntary release of Article IV and combined Article IV/use of Fund resources (UFR) staff reports, as well as the Fund's other transparency-related initiatives. They noted that there has been good progress in implementing these initiatives, representing considerable effort by both national authorities and the Fund.

Staff Reports for Article IV Consultations

> Most Directors considered that, on the whole, the experience under the pilot project has tended to mitigate concerns initially raised, particularly with regard to adequate participation in the pilot, and to the impact of publication on the Fund's confidential relationship with its members. The review indicated that the candor of consultation discussions and reports to the Board had generally not been significantly affected. Several Directors considered that the prospect of publication had, in fact, served to improve the quality and analysis of consultation discussions and staff reports.

> Notwithstanding this positive assessment, several Directors thought that the risk of loss in candor might materialize over time, in particular in the next round of consultations. These Directors also noted that widespread participation of members in the pilot project might have reflected the current favorable global economic conditions. In addition, the extent and nature of requests for modifications to staff reports suggested that concerns that a trend toward negotiated documents might emerge over time were not wholly misplaced and should be guarded against. Nevertheless, Directors generally considered that the benefits of transparency substantially outweigh the costs, and the Board agreed to adopt the policy of voluntary publication of Article IV and combined Article IV/UFR staff reports. Article IV staff reports and staff supplements would be published on the Fund's web site with the Public Information Notice and the Executive Director's Buff or Statement by the authorities, and cross referenced to published background documents.

Directors noted the progressively more frequent coverage of financial sector and macroeconomic vulnerability assessments in staff reports, and considered the issue of whether these assessments should form part of the main body of the staff report or be provided to the Board in the form of confidential annexes to the staff report, or through other confidential channels that are not published. On balance, the Board agreed that such assessments should remain an integral part of staff reports and that the authorities should, if needed, exercise their right to request deletions on the grounds of high market sensitivity prior to publication. This is clearly one area that will remain subject to continued review by the Board.

Staff Reports for Use of Fund Resources

Directors also considered the publication of UFR staff reports in light of the lessons from the pilot project and experience of publishing Letters of Intent/Memoranda of Economic and Financial Policies (LOIs/MEFPs). Most Directors agreed that the publication of UFR staff reports could bolster the credibility of—and public confidence in—programs as well as enhance the Fund's catalytic role in channeling private capital flows to countries with market access and boost ownership of programs.

Several Directors noted that publication of staff reports in a program context may have more significant economic and political consequences than in the case of Article IV reports. These Directors cautioned that markets could overreact to the publication of information in these reports, including differences of views between staff and the authorities on the staff's assessment of risk. Nevertheless, most Directors considered that the publication of UFR staff reports would increase transparency and accountability, and the Board accordingly agreed to introduce a policy of voluntary publication of UFR staff reports. Parallel with the modalities for publication of information relating to Article IV consultation discussions, the Board also agreed that UFR staff reports and any supplements would be cross-referenced on the Fund's web site with the published LOI/MEFP, Chairman's Statement, and Executive Director's Buff or Statement by the authorities.

Policy for Publication of Country Papers

Noting the overall benefits of transparency, Directors agreed to move to a general policy of voluntary publication of staff reports as well as other country papers. Although a few Directors had reservations, the Board also agreed that the Fund, in principle, should encourage publication of such documents. The Fund's approach, Directors considered, should be able to accommodate the specific circumstances of each country, including those relating to different institutional and political context. For some members, publication would be a longer term objective. The Board agreed to adopt a set of principles for the publication of country papers that would also aim at: (i) ensuring that frankness in policy discussions and reporting to the Board is maintained; (ii) striking the appropriate balance between transparency and confidentiality in dealing with sensitive issues that arise in the Fund's dialogue with its members; and (iii) continually improving the quality of staff reports.

Noting the point made by several Directors that, in the past, the deletions policy had sometimes lacked clarity and consistency in its implementation, Directors agreed that country papers should be subject to a uniform deletions policy. Most Directors underlined that deletions should be minimal and limited to highly market-sensitive information, mainly views on exchange rate and interest rate matters, in accordance with the policy currently in place for deletions from Article IV Public Information Notices (PINs). In cases of serious disagreement between staff and the authorities on a proposed modification to a document, the matter could be brought to the Executive Board for consideration. In any case, Directors agreed that experience with the application of the policy needed to be monitored closely to ensure its evenhanded and transparent implementation.

Within the framework of the Fund's policy on voluntary publication, the Board decided to continue with the agreed policy, which is based on the presumption that LOIs/MEFPs would be released, as would be other documents stating a government's policy intentions, including Technical Memoranda of Understanding (TMUs) with policy content, Interim Poverty Reduction Strategy Papers (I-PRSP), and Poverty Reduction Strategy Papers (PRSP). Moreover, the Board agreed that these documents would be published in full, subject to the agreed deletions policy. A member that does not intend to publish these documents would explain its reasons prior to the Fund's approval of its request for an arrangement. In addition, the Board agreed that I-PRSP and PRSPs would be published on the Fund's web site immediately after circulation to the Board, and before the Board discussion. Such advance publication of these documents, without deletions, would be consistent with the open participatory nature of PRSPs and interim PRSPs. It was agreed that staff would not recommend Board endorsement unless they were published.

Directors agreed to continue with the presumption of publication of Highly Indebted Poor Countries (HIPC) Initiative papers, and most Directors also favored that the same practice be applied with respect to joint staff assessment of PRSPs.

Directors agreed to revisit the publication policy on the text of Fund arrangements and TMUs after further consideration of the coverage of these documents.

Directors agreed that Chairman's Statements should continue to be prepared to convey to the public the key points—including aspects of particular importance to the success of the arrangement—made during Board discussions of UFR cases. They also agreed that the Chairman's Statements would include key points arising from Board discussions of papers associated with the HIPC Initiative and decisions on waivers of nonobservance or applicability of performance criteria. Directors expressed the view that the experiment with summing ups of Board discussions for use of Fund resources has been satisfactory, and agreed to continue with this practice.

The Board decided to continue the policy of voluntary publication of PINs following Article IV consultations and Board discussions on regional surveillance papers, concluding statements of Article IV and other missions representing the views of the mission team, and Recent Economic Developments, Selected Issues, Statistical Appendixes, and Reports on Observance of Standards and Codes. Also, documentation for staff-monitored programs, including mission concluding statements, LOIs/MEFPs, and staff papers would be released on the same basis.

Policy Documents

Directors discussed ways to help encourage a better informed public debate on Fund policies. In particular, they agreed to facilitate the greater use of PINs following discussions on policy issues, depending on such factors as whether a policy issue had reached completion or the point where informing the public would be useful. Directors also agreed on a more systematic procedure for considering the release of policy papers based on the same factors.

Next steps

Directors agreed that as the Fund's policy on publication has evolved incrementally in recent years, a clear public statement of the policy as it stands today will be useful to our interlocutors in the official as well as the nonofficial sector. The present discussion has gone a long way toward articulating such general policy, which will be filled out further as Directors consider specific policy issues in the next few months, such as the Financial System Stability Assessment (FSSA) and post-program monitoring. In addition, as next steps, I will ask staff to:

- Prepare a statement on the Fund's publication policy, including a revision of material in Box 2, and in particular putting in context the progress that has been made, that can be made available to the public. Directors will have an opportunity to see this statement when the decision to reflect today's discussion are circulated for adoption by the Executive Board;

- Work to improve the presentation and clarity of the Fund's activities to an outside audience by (i) using clearer and more straightforward language in documents; (ii) providing information on the nature and purpose of the different classes of Fund documents published; (iii) considering publication of particular documents on the web site in languages other than English. The Board asked staff to come back with proposals on the publication of documents in languages other than English in the period ahead, taking into account resource costs and modalities;

- Come back to the Board with a review of the experience with transparency of Fund operations and members' policies after 18 months; and

- report to the Board on the issues associated with publication of policy documents, and take stock of the experience with the deletions policy for country papers before the spring 2001 meetings.

2. ECUADOR—2000 ARTICLE IV CONSULTATION; STAND-BY ARRANGEMENT—REVIEW, MODIFICATION, AND WAIVER OF PERFORMANCE CRITERIA; AND EXCHANGE SYSTEM

The Executive Directors considered the staff report for the 2000 Article IV consultation with Ecuador and the first review under the Stand-By Arrangement for Ecuador (EBS/00/164, 8/14/00; Sup.1, 8/24/00; and Sup. 2 8/25/00). They also had before them a background paper on selected issues in Ecuador and a statistical annex (SM/00/194, 8/18/00).

Mr. Portugal and Mr. Yepez submitted the following statement:

> Six months after the introduction of formal dollarization, Ecuador shows clear signs of the beginning of a broad-based economic recovery. Initial surveys and anecdotal evidence indicate that sales are picking up significantly, not only for export, but also for the domestic market. Construction activity has resumed. Household consumption is rebounding from the very depressed levels registered in 1999 at a faster-than-expected pace. Firms--whose inventories were depleted throughout the crisis--are hiring new employees to increase production which, together with a massive out-migration of laborers, has begun to create shortages for unskilled workers in a few places, such as Otavalo (in northern Ecuador) and Cuenca (the third largest Ecuadoran city). In all, there are indications that the outflow of capital has considerably slowed down and that the external current account, which reached a surplus of almost 7 percent of GDP in 1999 after an 11 percent deficit in 1998, may be returning closer to balance faster than anticipated.
>
> Business confidence is returning and a new sense of hope appears to be emerging among entrepreneurs. With the reduction of the uncertainties that used to fuel opportunities for financial arbitrage and speculation, entrepreneurs are extending their planning horizons and redirecting energy towards reducing costs and enhancing productivity in their firms. The voluntary schemes of corporate debt restructuring have improved the solvency of debtor enterprises, thereby aiding the economic rebound. Our Ecuadoran authorities are committed to maintain the rescheduling schemes under the

principle of voluntary basis participation. While bank credit has not been restored yet, firms are financing themselves out of their own resources and, in the case of the larger ones, with increased recourse to external suppliers' credit. Moreover, it appears that continuing political impasses are less of a concern for business people, who perceive that politicians, due to dollarization, are less able than in the past to interfere with economic variables. The recent announcement of the successful external debt exchange and the continuous support of the IMF and other multilateral organizations, have added to this process of confidence rebuilding.

Economic agents have adapted smoothly and at a faster pace than expected to the full dollarization of the financial system and the use of US dollar bills for transaction purposes. To date, almost ninety percent of the total amount of local currency has been withdrawn from circulation in exchange for US dollar bills. Even in the informal sector, which has been benefiting from a visible increase in incomes due in part to dollarization-induced rounding up of prices, people have found effective ways to deal with the transitional shortage of coins, the demand for which is expected to be fully satisfied by end-September as the new minted coins arrive in the country.

Nevertheless, there are major obstacles and unsolved problems that Ecuador will have to confront in order to consolidate the recovery process, reduce poverty, and improve equity. Ecuador has a long way to go in improving legal security--a necessary ingredient of a favorable investment climate. The reconstruction of a sound financial system, including the reprivatization of publicly controlled banks, is a major challenge, fraught with political complications. Our Ecuadoran authorities are involved in a sound program to strengthen the financial system through the introduction of international standards and the improvement of banking supervision. Some positive results are observed since deposits in the financial system have increased by about US$500 million in the last seven months.

The enduring restoration of fiscal viability will necessarily require a major tax reform (as outlined in the program) and discipline in avoiding expenditure slippage, so as to protect the oil windfall gains of the recent past, until legal reforms establish a well-functioning oil stabilization fund. The very important steps already taken for a comprehensive restructuring of the public sector liabilities including the deposit unfreeze, the reprogramming of the domestic public debt, and the recent international bond exchange need to be completed with the rescheduling of the Paris Club debt and the establishment of a modern, prudent system of public debt management in the future. Against this background, the continued support of the international community, especially the IMF, will be crucial to improve the chances of success.

The well-written, accurate, and candid staff report raises some important issues. In particular, we would like to touch on three areas: the debt exchange, the legal reform under the Trole II, and fiscal matters.

As regards the debt exchange, we are very pleased to report that on August 23, 2000, the Republic of Ecuador closed a debt exchange transaction with its Brady Bond and Eurobond holders. Holders of more than 98 percent of the eligible debt elected to participate in this transaction. The financial effects of this transaction will be important. The Brady and Eurobond debt stock has been reduced by approximately 40 percent of their face value.

The external financing gap for 2000 would be eliminated, provided that the Paris Club agrees with a rescheduling. According to the staff's medium-term external projections, the debt exchange would make a sizable contribution to closing the projected external financing gaps over the medium term. Further assistance from official creditors will likely be needed during 2001-2003, but beyond that the remaining external financing gaps should be manageable, especially if the bond buybacks scheduled to begin in 2006 take the form of debt equity swaps.

Our Ecuadoran authorities are scheduled to meet with Paris Club creditors on September 14-15. At this meeting, Ecuador will be seeking as much cash-flow relief as possible during the program period.

The target for reduction in domestic arrears was not met, in part because of the need to accumulate sufficient deposits to pay the cash component of the external debt restructuring. However, our Ecuadoran authorities are committed to reduce domestic arrears over the coming months. A waiver for this performance criterion is, therefore, requested.

The Ecuadoran authorities intend to deepen the structural reform process through the "Ley para la Promoción de la Inversión y la Participación Ciudadana" (Trole II), which expands the scope of private sector activity, permitting the privatization of public utilities, roads, seaports, airports, postal services, and the extraction of nonrenewable natural resources. The regulatory frameworks for the petroleum, mining, electricity, telecommunications sectors have been reformed in order to facilitate privatization and/or joint ventures. The law also increases labor market flexibility, including longer probation periods for workers, use of part time labor, and greater functional mobility for workers within firms.

The Trole II clarifies that a financial institution with a capital adequacy ratio below the minimum established can be administrated by the shareholders as long as there is a plan agreed with the Superintendency of Banks to fulfill the requirements. The framework for recapitalizing banks below the minimum capital adequacy ratio of 9 percent should be approved within a few weeks by the Junta Bancaria. A waiver for this performance criterion is, therefore, also requested.

On August 23, the Central Bank issued a new regulation, which liberalizes the interest rate and defines usury rate as 50 percent above the average lending rate. This was a major step in the implementation of the structural reform agenda agreed with the Fund.

As regards recent fiscal performance, the overall surplus in the Non-Financial Public Sector at the end of June was 0.7 percent of GDP, with a primary surplus of 4.2 percent of GDP vis-à-vis an overall deficit of 2.5 percent of GDP and a primary surplus of 2.0 percent of GDP contemplated in the program. The positive results during the first half of the year are attributed to an efficient fiscal policy, which has been aimed at reducing expenditures by almost 1.6 percent of GDP and increasing tax collection by 1.2 percent of GDP. Hence, public sector spending is not a major contributor to the current recovery in economic activity.

Ecuador made substantial progress with the fiscal package announced by the Government last May. The package aims at setting the basis for an increase in social spending. It included a significant increase in domestic fuel prices aimed at reducing subsidies. The estimated revenue gain from the increase would be 1 percent of GDP (US$ 106 million). Increases of about 66 percent in the price of high octane gasoline, 72 percent in the price of low octane gasoline, 91 percent in the price of diesel, 160 percent in the price of jet fuel, 310 percent in the price of fuel oil, 276 percent in the price of solvents, and 337 percent in the price of aviation gasoline were implemented. To help alleviate the social impact of the fuel price increases, many of which were larger than envisaged in the program, the increases in the price of cooking gas were delayed and will be determined at the time of the second review. Since the increases in domestic fuel prices are a performance criterion under the program, a waiver on the price of cooking gas has been requested.

As the fiscal revenues are higher than programmed, special consideration has been given in the package to an increase in social expenditures in the second half of the year. The value of the cash transfer to the poor (bono solidario) was increased. In addition, special attention has been given to social programs in the education, health, and welfare sectors and the Fund for Indigenous People. Total spending on these programs would be increased by US$ 27 million.

The fiscal package also provided for a nominal wage increase between 48 percent and 70 percent for all categories of central government employees. This increase has been paid beginning last June. The adjustment in the wage bill will be financed with the revenue gain generated by the increase in domestic prices of the most important consumer fuels. The estimated cost of this measure is US$ 90 million (0.8 percent of GDP).

Available information suggests that the fiscal package would be completely financed and will not change the programmed fiscal deficit. If there are indications of a revenue shortfall, the authorities intend to move quickly to contain other current expenditures.

Preliminary data for end-June indicate that the performance criteria for the combined public sector borrowing requirement and the nonfinancial public sector borrowing requirement were met with substantial margins. However, since these data are not yet final, our Ecuadoran authorities request a waiver of applicability for these two performance criteria.

We would like to thank the staff, Management, and the Executive Board for the support that the Fund has shown to Ecuador. Our Ecuadoran authorities remain fully committed to the implementation of the economic program and are confident that they will continue to be able to count on the indispensable support from the international community for this endeavor.

Mr. Shaalan and Mr. Sakr submitted the following statement:

Ecuador's reform program supported by the stand-by arrangement has had a good start. The fiscal and external sectors have been stronger than programmed, the immediate pressures on the banking sector have eased, and dollarization has been proceeding rapidly. Furthermore, the decline in economic activity appears to have bottomed out. These accomplishments were enhanced by the considerable private sector involvement in filling its financing gap. Mr. Portugal and Mr. Yepez's informative and candid buff reports on the recent successful conclusion of the debt exchange transaction. This is a major step in the orderly resolution of the country's foreign debt. With these positive developments, Ecuador has started to emerge from the bleak economic situation of the past few years that culminated in the crisis of 1999. The authorities are to be commended for this outcome which was achieved under very difficult circumstances. However, it would be of course premature to consider that the crisis is already behind us. Much more needs to be done and we hope that the initial success will encourage the authorities to persevere in the implementation of the reform measures, including in particular those related to reforming the country's still weak financial sector. In view of the progress achieved in dollarization, the program's focus on the fiscal and the banking sectors, as well as on structural reforms, is appropriate.

The recent favorable fiscal performance was not only due to higher oil export prices but also to determined policy measures. The higher revenues are a reflection of an overall increase in domestic petroleum product prices that was larger than envisaged under the program, and an improvement in tax administration. The authorities are to be commended for this performance and are encouraged to continue their efforts to diversify and widen the revenue base. It is also important to phase out inefficient tax and fiscal practices such as import tariff surcharges, the financial transaction tax, and the widespread earmarking of revenues. In this respect, the recent elimination of the import tariff surcharges on a wide range of imports is welcome. However, further phasing out of these surcharges as well as of the financial transaction tax should proceed only as compensatory revenue measures are put in place in order to safeguard the program's overall fiscal targets.

The better than programmed overall fiscal outcome was also in part a result of shortfalls in capital spending. This is a matter of concern in view of the large cuts in this spending in recent years and the downgrading of the country's infrastructure. The authorities' intention to give priority to making up for past shortfalls is well placed.

The importance of reforming the banking sector cannot be over emphasized in view of the fact that serious weaknesses in this sector were central to the economic crisis of the late 1990s. There has been some return in confidence recently as evident from the fact that most of the unfrozen time deposits remained in the banking sector. However, banks' access to external credit continued to decline and nonperforming loans reached a very high level. This situation calls for perseverance in the authorities' reform efforts in this sector, especially with regard to bank restructuring and supervision as well as maintaining a well functioning liquidity support system consistent with the new environment under dollarization until a viable interbank market develops and banks' access to external credit lines improves. We, therefore, welcome the Banking Board recent resolutions in these areas. With regard to the bank loans restructuring, it will be important that the authorities resist pressure for more generous terms than those outlined in the approved regulations for restructuring household and corporate debt in order to avoid raising the fiscal costs further and to ensure the credibility of the process. It is also important to reverse the decision to impose an interest rate ceiling for loans in order to improve efficiency and improve financial intermediation. Any prudential concerns that the authorities might have in relation to risky lending should be addressed through strengthening prudential regulations rather than imposing an interest rate ceiling. It is, therefore, encouraging that the revised regulations on the ceiling have increased flexibility somewhat and hope that the ceiling will be eliminated altogether soon.

Structural reforms take on added importance in view of the dollarization and the need to facilitate an economic recovery. It is encouraging to note that progress is ongoing in various areas, including allowing private sector participation in the oil sector, preparing the ground for the privatization of public enterprises and utilities, improving the regulatory framework, and increasing labor market flexibility. A continuation of efforts in these areas would increase productivity and maintain competitiveness.

Finally, we congratulate the authorities on the successful conclusion of their private debt restructuring efforts. Their experience highlights the fact that efforts to ensure private sector participation can indeed be successful, but that this process is hardly straightforward and entails considerable uncertainty.

With these remarks, we commend the authorities once again for their strong reform efforts and for the success achieved thus far. We wish them continued success and support the proposed decision.

Mr. Milleron and Mrs. Mateos y Lago submitted the following statement:

In all the reports presented to this Board by the Ecuador mission since the beginning of the debt crisis, I do not think we have ever got as much good news and such a sense of optimism regarding the future economic outlook as in this report. Unexpected as it would have seemed only a few months back, Ecuador has so far been overperforming under the program. Furthermore, with the successful completion, a few days ago, of the exchange offer on Brady and Eurobonds, Ecuador has gone a long way towards restoring cooperative relationships with its private creditors. And that, in itself, bodes well for the resumption of fruitful talks with Paris Club creditors.

Quite clearly, it is too early to claim victory. Indeed, the Staff report shows unambiguously that Ecuador will need to walk on a tight rope for a number of years ahead, with hardly – if any – room for policy slippage or even complacency, if it is to avoid relapsing into debt servicing difficulties. Even then, the country will remain vulnerable to external shocks related to the price of the few commodities which form the bulk of its narrow export base, or with conditions in global financial markets or even to natural disasters, not to mention a combination thereof, like in 1998.

In light of the rather complicated political situation within Congress and of continued opposition to dollarization of vocal and active groups within the civil society, it is indeed far from certain that Ecuador will be able to overcome resistances to structural reforms when the time comes to actually implement them, or to sustain the fiscal austerity implied by the need to achieve primary surpluses of 5 to 6% for the next 10 years, when close to 70% of the population lives in poverty and half of those in extreme poverty. In this connection, establishing a broad, stable tax base will be key to the longer-term sustainability of the adjustment program. I therefore welcome that agreement on an appropriate tax reform will be a major focus of the second review. I think we should even go further and monitor actual passage of the reform by Congress as a performance criterion for that or the following review.

In light of other programs' experience and of the magnitude of fiscal costs of the financial sector crisis, I was wondering whether setting asset recovery targets for the AGD should be considered, as this could potentially ease the fiscal constraints in the next couple of years. In this connection, it would be interesting to learn more, if possible at this stage, about the progress of financial sector restructuring, beyond the establishment of a framework which is depicted in Appendix 1 of the report.

More generally, this report does not seem to mention any structural performance criteria, or even benchmarks, for the second review. The Staff report presenting the request for the SBA listed as PCs two measures to be complied with by September 2000, namely: redefining rules for the composition of bank capital in accordance with Basle standards and; recapitalizing viable but undercapitalized AGD banks.

Are these still meant to be PCs for the second review? And, given the importance of progress on all structural reforms for medium-term sustainability, should we not be a little more demanding ?

Let me now turn to policy discussions directly linked with this review.

On fiscal policy, the Staff managed to strike a fine balance between safeguarding the program targets and giving the authorities the flexibility needed for sustained ownership of the very sensitive measures at stake. They should be commended for that. I also think the adjustment of fiscal targets for this year is sensible. Finally, I welcome the design of measures aimed at safeguarding revenues in light of the uncertainties surrounding the future course of oil prices.

On monetary policy, though such a headline sounds a little odd in a report on a dollarized economy, I must say I am sympathetic with the authorities' approach toward the phasing out of the interest rate ceiling and the non-interest fees cap. Indeed, as long as these measures are transitory and there is a clear timetable for their removal, they are probably closer to a first than to a second best, given the patent market imperfections of the banking sector and the presumable lack of adequate risk management practices.

On debt issues and the principle of comparability of treatment between private and public creditors, let me just note – since Ecuadoran authorities will meet with Paris Club creditors in two weeks – that while Staff estimate that the external financing gap will amount US$ 1.412 billion in 2000, the bond exchange will provide overall debt service relief of US$ 238 million (17 % of the gap), whereas the effort requested from Paris Club creditors amounts US$ 690 million.

With these comments, I am prepared to approve the proposed decisions and would like to thank Staff for the considerable amount of work they have put into getting this program in flight, in spite of less than favorable odds.

Given the circumstances, it is understandable that the focus of this mixed article IV/UFR consultation was tilted toward the latter and thus provided less insight into issues of broader relevance than can normally be expected from an article IV report. I hope that, by the time of the next article IV consultation, Staff will be able to enlighten us more thoroughly on the actual workout of dollarization, as well as on its macro and microeconomic implications, preferably through a comparative approach.

Mr. Vittas made the following statement:

It is gratifying to note that economic developments in Ecuador since the adoption of the Fund-supported stabilization program have been in many respects more positive than expected. Signs of a pickup in demand and activity have emerged, the fiscal position has strengthened, the risk of a capital flight following the unfreezing of bank deposits has been averted and the dollarization of the economy has proceeded at a rapid pace. Moreover, the external position has been somewhat stronger than expected and, with the recent successful negotiation of the bond exchange program, Ecuador has markedly reduced its short-term financing gap while also taking a major step forward in reestablishing cooperative relations with its creditors.

While the better-than-anticipated performance of the economy is attributable to some extent to favorable exogenous factors, including in particular a much higher price of oil than had been assumed under the program, it is clear that in broad terms policy implementation has also been satisfactory. This is especially noteworthy if allowance is made for the fact that the authorities have faced, and are continuing to face, considerable difficulties in forging a domestic political consensus in support of the program.

An indication of the good policy record is provided by the fact that most of the performance criteria have so far been met. In addition, progress has been made in addressing initial weaknesses in program design. In this regard, the decision to increase allocations for social programs is especially welcome . Moreover, from a short-term perspective, the changes in the composition of fuel price increases and the size of compensatory adjustments in public sector wages may be seen as positive developments since they are likely to have enhanced the political acceptability of the total package. It is, however, useful to add that these changes also entail a cost since they postpone corrective actions that will eventually need to be implemented if longer-term fiscal sustainability and a rational fuel pricing policy are to be achieved. With this in mind, I would appreciate any additional insights that the staff can provide at this stage regarding the advisability and likely timetable of further reductions in fuel subsidies in the near future.

Looking forward, staff rightly point out that while the risks to the achievement of the program's objectives have diminished they remain substantial. In fact, the task that the authorities are still confronted with can only be described as formidable. This being the case, perseverance in the implementation of the program, coupled with the continued support of the international community and a favorable external environment, will be crucial if a lasting improvement in Ecuador's economic prospects is to be achieved and progress made in reducing poverty.

In the near term, a key priority must be to complete the normalization of relations with foreign creditors. The debt exchange transaction represents an encouraging example of significant private sector involvement in the resolution of a sovereign liquidity crisis. However, if a truly sustainable fiscal and external position is to be achieved, it needs to be followed by the early restoration of adequate inter-bank and trade-related credit lines as well as by the successful conclusion of the negotiations with the Paris club on the rescheduling of official bilateral debt.

On the fiscal front, while the recent improvement in revenue performance is welcome, much remains to be done to re-establish a viable position. In particular, it will be crucial to ensure the early enactment of the far-reaching tax reform that the Government intends to send to Congress in order to broaden the tax base and provide room for the eventual elimination of the financial transactions tax. Steps to reverse the undesirable shortfalls in the implementation of infrastructural projects and to further increase social spending are also in order.

Although recent developments in the banking system have been more positive than expected, the sector remains in a very precarious position, as illustrated by the very high incidence of NPLs and the weak capitalization of most banks. Against this background, I welcome the adoption of a scheme for the restructuring of household and corporate debt to banks, the introduction of incentives for the recapitalization of banks and the steps taken to improve rules regarding loan classification and provisioning and facilitate the creation of adequate liquidity support facilities. Firmness in implementing all these initiatives is essential inter alia in order to avoid any further increase in the very high fiscal cost of resolving the banking crisis . In addition, steady progress in reducing restrictions on interest rates and special provisioning requirements remains highly desirable.

In other areas of structural policy, I welcome the authorities' intention to deepen the reform process by expanding the scope of their privatization program, further strengthening the regulatory framework and broadening reforms in the labor market. In this connection, the recent passage of the Ley Trole II is an important step forward, notwithstanding the fact that it took place under exceptional procedures. It is also encouraging that the authorities have taken the necessary actions to ensure compliance with the prior actions.

In concluding, I would like to commend the authorities for Ecuador's satisfactory economic and policy performance under the program and wish them continued success in the future. I can support the proposed decisions.

Ms. Lissakers made the following statement:

In April, when we approved the Stand-By Arrangement, the prospects for stabilization in Ecuador seemed highly uncertain. It is gratifying to see that the authorities have succeeded in achieving a level of macroeconomic stability with the support of the Fund, have implemented their dollarization scheme – so far successfully – and have concluded a satisfactory debt exchange with almost universal participation. The real economy is beginning to show signs of recovery. In short, despite the need for waivers of some performance criteria, the Fund program in Ecuador seems on more solid footing now than one might have expected given the starting point. The Ecuadoran authorities and Fund staff deserve credit for their dogged efforts. We can support the requested waivers and completion of the long-awaited first review of the program, as well as the staff's proposed rephasing of future purchases.

Although cooperation with the Fund has improved dramatically, political conditions in Ecuador necessitate a high level of diligence and engagement by Fund staff to ensure that actions taken are consistent with the Fund program. The authorities need to ensure that Fund staff is made aware of all measures taken that are relevant to the program – all the more so when political developments create a climate of uncertainty about policy. The authorities will need to continue and step up their diligent efforts to keep their fiscal program on track, especially in light of needs of the financial sector.

Dollarization

While we do not consider dollarization a substitute for strong macro and structural reforms, it does offer a framework in the context of strong policy that can provide credible basis for a currency regime that promotes stability and growth. Ecuador's implementation of dollarization has been more successful than many had expected, and has been supported by implementation of important policy reforms . It will be important that the authorities make every effort to continue to educate the population about using dollars, including identification of counterfeit dollars and prevention of money laundering.

Macroeconomic/Political

We are pleased that the prior actions for the review have now been taken. The circumstances under which Trole II has been passed leave it vulnerable to court challenge. Are there any means by which the Congress can indicate, once the new elections for its President have taken place, its support for Trole II?

The overshooting of the target on non-interest domestic arrears is worrisome. Can staff clarify what the arrears are, and provide detail (beyond staff report) on the authorities' timeline and plans for eliminating arrears? Table 5 illustrates the profound effect the external bond exchange will have in reducing the BOP gap, but the fiscal gap remains quite large in 2001, after the Fund program ends. Staff notes that unless the public sector has regained sufficient access to domestic capital markets to roll over these principal payments, an additional domestic debt restructuring would be necessary. Do the authorities have contingency plans?

The shortfall in capital spending is also a concern. According to the staff report, a significant increase in capital spending is not planned until 2006-2007 when the fiscal financial gap is under such long control. Delays in infrastructure spending could have profound implications for medium-term growth and poverty reduction. The staff report contends that implementation capacity needs to be improved for additional spending to achieve these goals. Perhaps the World Bank staff could comment on authorities' efforts in this area.

We are pleased that the authorities are keeping in mind an early increase in spending on social programs. The special issues paper explains the current system for providing a social safety net. The authorities, understandably, are slow to eliminate the subsidy on cooking gas, despite expansion of the bono solidario program. A key element of the fiscal program beyond the program horizon might be to establish a more developed social safety net. The bono solidario program might be used as a base, but we understand that it currently may not be very well targeted to the lower income groups. A more well-targeted, but stronger, social safety net would not be inconsistent with the objective of fiscal consolidation over the medium term. Can staff comment on progress in reaching agreement on the proposed $50 million SB social sector loan?

In the medium term, the proposed new oil pipeline holds potential for improving Ecuador's fiscal situation. We encourage the authorities to conclude the pipeline deal in a manner that makes every effort to minimize the potential environmental impact of the pipeline and its construction, including adequate funding for regulatory oversight of the process.

Financial Sector

We are encouraged by efforts to strengthen the banking system, as we have noted before, particularly by the steps to establish a bank liquidity facility, to improve loan classification and provisioning requirements and to enhance the banking sector's ability to restructure and collect bad debts. We understand that last week the authorities received approval for a resolution facilitating access to "coactiva" procedures by private banks.

We join staff in encouraging the authorities to resist pressure for more generous debt restructuring treatment in the household corporate sector to avoid raising the fiscal cost of the banking crisis. We also wish to underscore staff's recommendation to remove interest rate ceilings altogether as soon as possible.

Lack of progress in two critical areas is of significant concern. First, timely resolution of closed banks' assets and their subsequent sale are necessary to keep fiscal costs down. Second, supervisory enforcement of regulation and application of penalties is needed for effective oversight of the private banking sector. Can staff elaborate on any plans for strengthening already existing strategies and/or implementation in these areas? We recognize that these are difficult issues for every country in crisis, and other countries with strong capacity to deal with them are having problems.

Debt Exchange and Paris Club

We commend the authorities for reaching a satisfactory outcome with private external creditors – we understand the recently completed Brady bond and Eurobond exchange offer achieved nearly a 98 percent participation rate. We thank IMF staff for playing an important role in the success of the exchange.

Despite the combined IFI financing and the authorities' recent successful bond exchange offer, there remains a financing gap in the short term. In this context, we reiterate our willingness to support a generous Paris Club rescheduling. We will wait for the authorities' formal request to the Paris Club before commenting on the magnitude of required relief from the Paris Club. However, with reference to staff's assumptions, we will follow up bilaterally with staff with specific questions on Paris Club creditors' exposure to the nonfinancial public sector. We also expect that the Paris Club will take a close look at the issue of comparable treatment for other classes of private creditors, such as the London Club, non Paris Club creditors, and supplier creditors.

Structural Issues

We understand that the privatization elements of Trole II are controversial among the Congress. It is clear that key structural reforms, such as privatization and increased flexibility in the labor market, are needed to enhance productivity and growth. We strongly urge the authorities not to backtrack or lose momentum on these important issues. With regard to privatization, let me reiterate that we encourage the authorities to conduct privatization in consultation with affected workers and in a fashion that fully protects labor rights. Again, may we suggest the authorities look to the Korean Tripartite Commission as a good example of how this might be done in practice.

The selected issues paper lays out the proposals under consideration for tax reform, among these the abolition of the financial transaction tax. Can staff elaborate on the authorities' strategy and timeline for submitting legislation on these issues? Have the components of reform changed, or are there any elements that are likely to face stiff Congressional opposition? Is there any sense yet of the overall fiscal impact of the tax reform package that will be proposed?

Finally, we take note of Ecuador's relatively restrictive trade regime. We encourage the authorities to work to phase out remaining import bans; eliminate quantitative and tariff restrictions on sensitive agricultural products, as agreed in the WTO; and devise a plan for phasing out import surcharges.

Mr. Carstens made the following statement:

It is encouraging to see that in broad terms the Ecuadorian stabilization program is working. Some months ago the odds for success were not substantial, but perseverance by the authorities in applying strong policy measures and major political skills in getting those measures through are starting to pay off. Authorities should be commended for this, although I share the opinion of staff, of other colleagues and of Mr. Portugal and Mr. Yépez in the sense that there is no time or space for complacency. The challenges ahead for Ecuador continue to be enormous. Therefore, I hope that the main political actors in the country should take this early success as a stimulant to join forces and keep working together for the benefit of the nation.

In this light, I hope that the different factions in Congress manage to develop a working relationship among themselves and with the government in order to move ahead on the key economic issues, including the initiatives contained in Trole II package, the tax reform and the 2001 budget.

It is also gratifying to hear that one of the positive side effects of the program has been an improved relationship and cooperation of the authorities with the Fund. It is a real plus to have both sides working together in the face of an extremely challenging situation. This working environment allows for frank discussions and for the essential flexibility that is required in implementing a program under duress. This flexibility and coordination capability showed its benefits recently, as the required fiscal policy was adjusted to make it politically palatable, but without losing its consistency. Both authorities and staff should be commended for this. Needles to say the quality of the documents prepared by staff is also very high, denoting a deep understanding of Ecuador's economic and political circumstances. Therefore congratulations to staff are in order.

Mr. Portugal and Mr. Yépez comprehensive buff, together with staff's document present to us in an eloquent fashion the highlights of Ecuador's performance under the program. The evolution of the economy has been satisfactory, being this reflected in the fact that most performance criteria and prior actions have been complied with. I support the authorities requests for waivers, as well as the staff's proposed decision to determine as completed the first review of the Stand-By Arrangement.

Having said this, I do not want to take valuable Board time to underline Ecuador's achievements, which are not few, but rather to highlight areas which are of some concern to me.

First, it is of utmost importance for Ecuador to redouble its efforts in pursuing the medium- and long-term external and fiscal sustainability. The adjustment in energy prices and the restructuring of its external debt to private creditors—a good example of PSI—are important steps in the right direction. This not withstanding, even if developments go well in the coming weeks, the primary surplus of the public sector will have to be maintained at abnormally high levels for many years. This situation calls for a comprehensive tax reform, efforts to speed up privatization and to find as soon as possible a solution to Ecuador's internal debt problems. All these measures are relevant not only to assess medium- and long-term sustainability, but also to have means to finance additional expenditure in social programs and infrastructure, in themselves necessary conditions for the success of the program.

In the financial sector, I welcome the resolution that established the scheme to voluntarily restructure large viable debts of households and corporations. The incentive structure both for creditors and debtors are there to reach agreements of restructuring loans. Nevertheless, the authorities should think one step ahead, and establish a mechanism to assess the compliance of restructured loans. In particular, they should make sure that neither debtors nor creditors are only trying to exploit the short-run benefits of restructuring, and subsequently start to bet again for an additional bail-out by authorities. This type of moral hazard should be deterred at all costs.

In addition, I share the concerns expressed by staff about the existence of an interest rate ceiling, the aggressive provision rule for credits with high rates of interest and the restrictions on the fees that banks can charge for transactions. Further improvements in all these respects are necessary for the recuperation of the banking system, and to provide the right incentives for the capitalization of institutions. A question that puzzles me, is why the banking system at this stage is still having problems to retain the funding of external sources but locally the run against them has been stemmed. As a matter of fact, the local liquidity of banking institutions have improved, as well as the external situation of the country. Staff's opinion in this regard would be appreciated.

In closing, I would like to wish the Ecuadorian authorities continued success in their stabilization efforts.

Mr. Hinata made the following statement:

As previous speakers mentioned, it is welcome to see some signs of economic recovery beginning in Ecuador. As described in Mr. Portugal's and Mr. Yepez's helpful statement, fiscal and external positions have improved. Almost all performance criteria for end-April were observed, and this favorable performance continued in the end-June performance criteria. This is mainly due to the authorities' efforts to revive the economy under the Stand-by Arrangement program. It is also encouraging that dollarization has proceeded smoothly and broadly, and that more than 98 percent of Brady Bond and Eurobond holders participated in a debt exchange transaction.

However, there might be uncertainty in implementing the program and in prospects for international oil prices. Some undesirable measures, such as an interest rate ceiling on bank loans, were introduced, resulting from political interference. Moreover, it was decided to abolish the financial transactions tax without implementing tax reform, although that abolishment would not become effective until 2001. Further, redoubled efforts will be needed for the authorities to return to the path for sustainable economic growth since this will not be achieved easily.

Inflation is much higher than had been programmed despite the rapid proceeding of dollarization. In general, dollarization should decrease inflation. The staff provided an explanation in the main staff paper (EBS/00/164) and the selected issues paper on the possible causes for the higher inflation. However, these facts leading to high inflation, in my views, could have been taking into account when program was designed. Since dollarization in Ecuador is considered a model case, it would be useful to study more deeply the reasons for high inflation. Further staff explanation would be appreciated.

This chair broadly supports the staff appraisals, but would like to comment on a few points.

Regarding fiscal policy, under the Dollarization framework, interest rates are determined apart from the business cycle, and there is no doubt that fiscal policy is important in responding to the business cycle. Therefore, the authorities should firmly commit to implementing measures to strengthen the fiscal position in order to provide counter-cyclical fiscal expenditures. In this regard, it is encouraging that the authorities were able to improve the fiscal balance in the revised program while increasing expenses in the social sector program.

On the revenue side, Ecuador has received a windfall from high international oil prices, and this favorable revenue continuing depends currently on the now uncertain prospects for oil prices. To reduce potential risks in revenue shortfall, in my view, diversification in revenue is important. In this regard, I welcome the authorities' preparing to propose tax reforms that would reduce fiscal dependence on oil revenues. As staff rightly pointed out, Ecuador is at the point where there is no room for policy slippages on the difficult decisions needed to reduce fiscal deficits. In this context, the authorities are expected to work to meet the consensus regarding tax reforms as well as to achieve fiscal sustainability through tax reforms.

On the external front, according to Box 1 of the main staff paper, the first coupon payments on the new bonds will not be due until the first half of 2001. This may help reduce Ecuador's financial burden in the near term. On the other hand, news-wired articles mentioned that the spread on the twelve-year bonds was widened in the market when it was announced that the debt exchange offer would be accepted by receiving tenders from more than 85 percent of bond holders. This widening in the spread could be a sign that market confidence is still weak. I would like to hear staff's view on this.

With these remarks, this chair supports the proposed decision and wishes the authorities every success in their endeavors.

Mr. Burgess made the following statement:

As others have already noted, the first stage of dollarization has been surprisingly successful and we commend the authorities for their efforts in this regard. Like Mrs. Mateos y Lago in her statement, however, we think it is too early to declare victory. Ecuador's high public and external debt, fragile banking system, difficulties in achieving the political consensus necessary to take forceful reform measures, and the risk of a fall in oil prices still pose considerable challenges to medium term external and fiscal sustainability. While much progress has been made, a high degree of risk associated with this program remains. A challenge for policymakers, now, is to make dollarization sustainable by raising the economy's competitiveness, restoring economic growth, and strengthening the banking sector—tasks that will require a deepening of structural reforms to boost productivity and business confidence, and which are likely to pose challenges to the authorities which are as significant as those they addressed in the early stages of this program.

With this in mind, I have a number of brief comments on public finances, the banking sector, and issues surrounding external finance and private sector involvement.

On public finances, in the short term, higher than expected oil revenues raise a number of issues which could have been addressed more fully in the staff report. My impression is that the bulk of extra revenues has so far been used to finance some items of additional public spending. The authorities have, for example, already increased public wages, cash transfers to the poor, and some other discretionary spending by more than initially programmed. For the most part, this appears to reflect well-intentioned efforts to minimize the adverse effects of the adjustment program on the most vulnerable groups of society. But, given the high public debt to GDP ratio and the heavy reliance on oil revenues in Ecuador, there is certainly a case to be made for using any additional revenue windfalls to reduce the deficit and thereby free up resources for social spending over the longer term through lower interest payments. I would be interested in any further staff views on what the authorities should do with any windfall gains from oil revenues to manage this trade-off. More generally, I agree with Mr. Hinata that the authorities should continue to seek reducing their reliance on oil revenues, and that this should be one of the key aims of the forthcoming tax reforms.

On the banking sector, I agree with others that the continued stability in bank deposits is a positive sign. However, I share the staff's reservations about the cap on interest rates, for the reasons set out in the staff report. I know the liquidity recycling facility has been established, but it continues to be little used. This may reflect improved bank liquidity, but may also reflect problems with the issuance of central bank instruments. It is essential that the technical capacity required both to run this scheme and to implement financial sector reform is put in place. On a related point, like Mrs. Mateos y Lago, we would also welcome an update on the degree of progress in restructuring assets and recapitalizing banks.

Finally, on external financing, I note that the medium-term picture remains extremely challenging. The external debt service ratio, for example, though projected to decline, remains high at 30 to 40 percent. Nevertheless, grounds for optimism exist; the recent debt exchange, as others have already commented, appears to be proceeding successfully and, to date, appears to stand as a good example of private sector involvement in crisis resolution.

Mr. Nelmes made the following statement:

I would like to thank staff for a good set of papers and thorough analysis. The authorities deserve to be commended for persevering with broadly appropriate macroeconomic policy under difficult circumstances. At last April's discussion of Ecuador's program, our chair expressed concern over a number of potential pitfalls that could have arisen. These included worries over the degree of cooperation between the authorities and the staff, the equitable sharing of the burden of fiscal adjustment among different segments of the population, the impact of reductions in fuel subsidies, delays in resolving banking sector problems, and the ability to secure sufficient debt reduction to deliver broad medium-term external viability.

For the most part, and to their credit, the authorities have managed to avoid most of these pitfalls. Cooperation with the Fund has improved, and there is heightened recognition and action to minimize the adverse impact of adjustment on the most vulnerable segments. Fuel subsidies have so far been reduced successfully and, by excluding the subsidy in cooking oil in an appropriately selective manner, a more coherent strategy for financial sector restructuring is taking shape. Most importantly, the Brady and Eurobond restructuring plan has been a success. These are all positive developments.

Nevertheless, significant risks to the outlook remain and, as almost all Directors have mentioned, a long road lies ahead for policymakers in Ecuador. As Ms. Lissakers noted, a better social safety net is required. Dollarization still has some way to go to become fully entrenched. Mr. Carstens noted the need to speed up privatization and the need for a solution to internal debt problems. On balance, though, I broadly share the staff's analysis and recommendations contained in the report, and would like to emphasize only two points.

First, the authorities will have to move expeditiously in formulating and implementing tax reforms along the lines described in paragraph 36 of the staff report. As staff notes, a fiscal gap remains over the next several years, despite unprecedented efforts at fiscal consolidation. Comprehensive tax reform will have to be pursued in order to ensure longer-term fiscal viability. In this context, the suggestion by Mr. Milleron and Mrs. Mateos y Lago to monitor the passage of the tax reform package by Congress as a performance criteria has some merit, and I would welcome staff's comments on this proposal.

Second, among the many challenges facing the authorities, one of the most important will be to move forward with implementing financial sector reform and resolving the banking crisis. Risk management in banks will have to be vastly improved, as does prudential and regulatory supervision. The financial sector as a whole needs to be enhanced, in particular to ensure that bank recapitalization proceeds smoothly and quickly. In this context, however, it is worth emphasizing that interest rate ceilings are likely to undermine the private sector's interest in participating in the bank recapitalization process. Interest rate ceilings adversely impinge on banks' actual earnings and on investors' expectation of bank future earnings, therein reducing the attractiveness to investors of increasing their ownership stakes. Increased flexibility in the interest rate ceiling is a step in the right direction. However, I strongly underline the staff's advice in urging the authorities to abolish the ceiling.

With these brief comments, our chair approves the proposed decision, and we wish the authorities in Ecuador success in the period ahead.

Mr. Rojas made the following statement:

We welcome the better than expected performance of Ecuador under the Stand-by Arrangement approved last April, as evidenced by the incipient recovery in economic activity, the improved fiscal position, relief of potential pressures on the troubled banking system, fast and smoother than expected transition to dollarization, and the successful completion of the debt exchange transaction. All these developments indicate that Ecuador has had a good start in its efforts to achieve a resolution to its economic uncertainties over the medium term.

However, there are still a number of risks related mainly to the layout of the underpinnings necessary for the main elements of the program, i.e. dollarization to work as expected and to yield its results sooner rather than later. As we noted on the occasion of the approval of the Stand-by Arrangement, the stabilization properties of dollarization have not been put to test in a context such as the one Ecuador was experiencing. It is therefore encouraging to realize that the plan has worked better than expected, helping to create a more credible policy environment.

In this connection, however, one major concern refers to the fact that inflation peaked only recently, at over one hundred percent, resulting in a substantial appreciation of the real effective exchange rate in the past few months, outdoing the appreciation that had already taken place previously. Moreover, inflation will remain close to hundred percent, on average, in 2000, significantly less than previously anticipated by year end. In addition, is it realistic to expect the sharp decline envisaged for 2000? The staff notes it will take several years for inflation to decrease to the level of its trading partners. Therefore, what are the implications for external competitiveness and sustainability of growth? Staff comments would be welcome.

Even though we recognize the progress achieved so far, there are still several risks that could affect the successful implementation of the program. I would like to mention that concerns expressed in April about the size of the financing needs and financing gaps still remain. In this regard, we welcome the successful completion of the debt exchange as a way of achieving a cooperative solution with private creditors that secures not only part of the needed financing of the program for this year but, in the longer-term perspective, allows to achieve also a more sustainable external and fiscal position. We expect that as a result of this agreement with the private sector, the authorities will be able to reach prompt agreement with its Paris Club creditors to close the financing gap for this year. That agreement could also have an important signaling effect, complementing the role of the Stand-by Arrangement in restoring the confidence of international investors in Ecuador.

Regarding fiscal policy, we welcome the stronger than expected fiscal position, with the fiscal deficit below the target specified in the program. However, we agree with the staff that this improvement in the fiscal accounts is mainly due to the higher than envisaged price of oil in this respect. We welcome Mr. Portugal’s and Mr. Yepez's indication that Ecuador is contemplating putting in place a well functioning oil stabilization fund while seeking to protect the oil windfall gains of the recent past. In particular, we support the steps taken toward eliminating the costly and regressive generalized subsidies on domestic fuels. The initiative to undertake tax reform is also welcome, as it provides the necessary resources to help in the achievement of a more sustainable fiscal position, reducing the current dependence on oil revenues. We welcome the authorities' initiative to give high priority to social spending as a way to minimize the impact of the program on the most vulnerable groups of the population. This will help in establishing an adequate social safety net, a concern raised by other Directors and our chair when approving the Stand-by Arrangement in April.

Turning to the banking system, we would like to reiterate that one of the crucial requirements to achieve successful dollarization is a sound and well-supervised banking system. However, even though dollarization of the economy is proceeding more smoothly than anticipated, the problems in the banking system are still unresolved. On the plus side, it is important to highlight the improvement in the liquidity of the banking system, as reflected by the maintenance within the system of the remaining deposits that were not frozen. This is a clear sign of confidence in the program. Increased liquidity also lends to reduce the pressure on the envisaged mechanism to recycle liquidity, which still needs to be adequately implemented. This becomes even more relevant in light of the difficulties domestic banks have had in maintaining their external credit lines.

However, the staff report indicates that credit to the private sector remains flat, and nonperforming loans have increased to 47 percent in June. This calls for further efforts to strengthen the banking system by removing the existing interest rate ceilings on bank loans and bank charges, as well as the new provisioning scale. We agree with the staff's view that the path of policy implementation is very tight, with no room for slippages. We expect that the positive developments achieved so far gain even further momentum, as we hope to see in the second review under the program.

With these remarks, we support the requested waivers and completion of the first review, and wish the authorities success in the implementation of the program.

Ms. Bonomo made the following statement:

It is fair to say that the extremely difficult situation in Ecuador has somewhat improved since the Board approval of the SBA in April. I welcome the actions that have been taken on several policy initiatives. I particularly acknowledge the authorities' efforts to reach agreements with foreign private creditors and the Paris Club, respectively. Against this background, I agree to complete the first review under the SBA.

Despite this welcome developments there is certainly no time for complacency. The outlook for Ecuador as projected in the economic program depends on numerous assumptions that may not materialize. The downside risks are thus formidable. In face of the large financing requirements of the program, its short- and medium-term success is highly dependent on reaching fiscal and external sustainability. It is thus necessary that the authorities focus all their efforts on these objectives.

In particular, a successful program depends on agreements with foreign private creditors as well as with Paris Club creditors that will result in an appropriate reduction in external debt obligation. Such a reduction will be decisive to reach the programmed fiscal targets. After the debt exchange with bond holders, the authorities should now make every effort to also come to an agreement with Paris Club creditors. Moreover, although the debt exchange for the Brady and Eurobonds was successful, it raises the issue whether the private sector's contribution was sufficient, given that the debt service profiles still look demanding. Thus, even if a deal can be struck with all creditors, there will be no leeway for the authorities for policy mistakes. The economic program has to be implemented as envisaged.

In particular, fiscal slippages must be avoided. Fiscal discipline is necessary since considerable downside risks exist, some beyond the authorities' reach. The demanding fiscal targets could be missed if unexpected developments in oil prices, costs of cleaning-up the banking sector, foreign interest rates, or economic growth should materialize. Given these uncertainties, the authorities' measures to safeguard fiscal revenues for the remainder of this year are right and prudent. In particular, I support the decision to wait with the elimination of the financial transactions tax until the loss of tax revenue will be compensated. Moreover, I expect that efforts will be stepped up to collect revenues from electric power companies, which have been in arrears to the state oil company because of the increased oil price. Furthermore, I welcome the authorities' plan to continue eliminating the costly and regressive generalized subsidies on domestic fuels. I am aware that this issue is politically highly sensitive in Ecuador. This is reflected in the government's decision to delay the upward adaptation of the price of cooking gas. Nevertheless, the authorities should look for other, more focused ways to support low-income groups. I, thus, expect the increase in cooking gas prices to take place in October, as agreed. Finally, to put the fiscal position on a stronger footing in the medium-term, the planned tax reform calls for prompt action of the legislature.

On financial sector issues, it will be crucial to progress with the reform of the banking system. This is a necessary condition to continue the successful dollarization of the Ecuadorian economy. The banking system must be restructured and prudential regulation and supervision enhanced. While the strategy worked out by the authorities in cooperation with the Fund and other IFI's is useful, it is urgent to implement the planned measures as quickly as possible to prevent the enormous costs of the banking resolution from increasing further. Moreover, the sooner a sound banking system is reestablished the faster the economy will pick up.

Furthermore, I share the staff's view that the introduction of an interest rate ceiling for loans and of restrictions on the bank fees on transactions are counterproductive for the reasons given in the staff report. These problematic regulations should, therefore, be abolished at the earliest possible moment.

Finally, enhanced progress in labor market liberalization and privatization would also be supportive of dollarization and the economy at large. I thus welcome the respective proposals suggested by the government in the legislation submitted to congress.

To conclude, I continue to wish the authorities every success in their difficult endeavor.

Ms. Vtyurina made the following statement:

For a country that in the past 18 months suffered a 7.5 percent fall in GDP, adopted the U.S. dollar as the official currency and is in the midst of political difficulties, recent achievements under the program as well as a successful rescheduling of the Brady and Euro debt deserve great recognition and commendation. When giving our consent to the program's approval in April we had doubts about the authorities' commitment to the required agenda. Today, while recognizing that major challenges still remain to be tackled, we agree with the staff that risks to the program have diminished significantly since the last meeting of the Board, and we congratulate the authorities on that.

Nonetheless, Ecuador remains a nation with a battered banking system, with high degree of susceptibility to commodity price fluctuations, and with sixty percent of the population living in poverty. The authorities' agenda will need to be continued to focus on the improvement in fiscal, external and financial sector areas and on the achievement of a smooth social transition at time of such drastic changes in the national economy.

In the fiscal area, I welcome better than programmed results on the fiscal deficit and, most importantly, the fact that they were achieved through a better collection of non-oil tax revenues and improvements in tax administration. The fiscal package introduced in May, among other things, was successful in implementing a sizable price adjustment without triggering major social unrest. At the last review we were among the advocates of a faster and substantial fuel price increases so that the price at least covers the domestic cost of production and we are glad that the authorities implemented those ahead of the program. At the same time, I am pleased to see that spending on social programs stayed intact and transfers to the poor have actually exceeded the programmed.

I have similar concerns like the US Chair in regards to the decrease in investment spending below budgeted. I wonder if the staff could comment on the reasoning for such when there was no threat of performing below the budget deficit target. Are the authorities being overly careful in spending? I note that spending on infrastructure has in fact increased, therefore, I am curious what areas were actually affected by the cuts. In any case, I would advise the authorities to continue with the planned capital spending since it constitutes an important factor in improving conditions for growth.

While I welcome the fact that safeguard revenue measures listed in para 33 have been identified by the authorities for the remainder of the year, I regret that these measures are distortional in nature. I have two points on this issue. First, designing of safeguard measures of other nature, such as cuts in expenditure, for example, would have been preferable. Secondly, these distortional measures are said to be retained because of the uncertainty regarding future oil prices as well as financing of the program. In regards to oil prices, while I sympathize somewhat with this argument in general, when taking into account the current developments in the market it seems so that the remainder of this year most likely will not see a drastic reduction in prices. As to the issue of the uncertainty about financing, from what I see, it will be there for at least some time. Therefore, neither of the above mentioned reasons should be used as an excuse to continue with these measures. In any event, I encourage the authorities to eliminate these distortional measures expeditiously.

As regards banking system, it is too early to make a judgement about the results of the restructuring process. The designed framework for financial sector restructuring remains comprehensive and challenging and it appears that the authorities are working on it without major deviations.

Finally, I want to congratulate the authorities on successful results achieved in debt restructuring with private creditors. At our discussion on PSI it was noted that the experience is quite limited in this area. Well, now the case of Ecuador can serve as a very useful example. From my point of view, this case has proven that the Fund's approach of placing responsibility for negotiation with creditors directly with debtor country is effective and non-disruptive. We wish the authorities success in the negotiations with official creditors.

The staff representative from the Western Hemisphere Department made the following remarks:

It is difficult to envisage how Congress could take any action to signal that it supports the Trole II, even if it does not formally vote on Trole II, as not much experience exists with legislation being passed by these means. The ability for emergency legislation to become law after 30 days was introduced in constitutional reforms about 2 1/2 years ago; e.g. some appointments to the Cabinet have taken place without a vote from the Congress. The biggest signal would be if Congress takes action against the passage of Trole II, but that does not seem likely, given the arrangements being made for the new President of Congress.

On the composition of domestic arrears, about 60 percent relate to work payments of wages and salaries, 20 percent to transfers to municipalities from the central government, and the rest to various items, including government delays in transferring social security payments. In part, the arrears problem arose because of shortfalls in projected disbursements from multilateral institutions. Also, the authorities were trying to conserve resources for the planned debt exchange, but are now in a good position to clear all domestic arrears by the next test date.

Contingency plans for dealing with domestic debt falling due, are a problem. Even with a 6 percent primary surplus next year, a fiscal financing gap of just over 3 percent percentage points of GDP will remain. Domestic debt falling due is about 1.9 percent of GDP. Staff are urging the government to restructure all domestic debt falling due over the next several years. While the government is contemplating measures, no decision has been taken as yet.

The undershooting on capital spending seems to reflect several issues, such as political uncertainties, continuous changes in personnel, not only at the ministerial level but also at the more junior levels within the ministries, the shortfalls in projected disbursements, and the conservatism in terms of holding on to fiscal resources for the debt exchange. However, the authorities are committed to a more stable policy implementation. Since the debt exchange has gone through, staff expect to see a pickup in the implementation capacity over the rest of the program period. Regarding the $50 million social sector loan, the World Bank expects to make a disbursement in the next few weeks.

On measures to strengthen the banking strategy, last month an advisor to the superintendency of banks, a former superintendent in Venezuela, has taken up office. Staff hope that the banking strategy will now be implemented more effectively.

The tax reform is an essential component of achieving medium-term external and fiscal sustainability. The main components of reform are the same as those laid out in the original memorandum of economic policies: increases in the coverage and scope of the value added tax, reduction in the personal income tax threshold, and the reduction in tax revenue earmarking are the main elements. The abolition of the financial transactions tax at the end of this year will cost about 2 to 2 1/2 percent of GDP in fiscal revenues. At the same time, the temporary import tariff charge is to be abolished in December, which will add another 0.8 to 1 percent of GDP in lost revenue. Therefore, 3 to 3 1/2 percent of GDP in lost revenues will have to be replaced. Given the size of the fiscal financing gap after the debt exchange, further fiscal efforts of around 1 1/2 percent of GDP will be needed. As the tax reform is crucial, it will be a major focus of the mission throughout the second review.

The authorities' intention is to submit the tax reform to Congress in September, along with the budget. However, receiving approval for the reform will be difficult, since by that time a Social Christian President of Congress, and possibly a Social Christian majority will be in power. That majority has until now been committed to no overall increase in the tax burden.

On making the tax reform a performance criteria, staff had in mind that submission of an appropriate tax reform to Congress would be necessary for completion of the second review, and that passage of the tax reform by Congress would be necessary for completion of the third review early next year.

While seemingly stabilizing in July, data for the first weeks of August indicate that the banks' external credit lines have fallen by another $23 million to about $700 million. That was about a third of the level of one year ago. The reason could be that the perceived country risk has not declined much, even accounting for the success of the debt exchange offer.

Additionally, a number of arrears from intervened banks are outstanding to these banks, and the authorities have been slow to negotiate with foreign banks for a rescheduling of those arrears. However, negotiations were underway at the present time. Staff had pushed the authorities for a considerable period of time to have those banks first stabilize the decline and then to reconstitute the external credit lines.

Windfall gains from oil revenues were an issue for the second review. What is needed in that regard is to place the fiscal accounts on a sustainable basis over the medium term. Therefore, staff believe that any excess between now and the end of the program period should be devoted entirely to deficit reduction.

The technical capacity of the authorities to implement the liquidity recycling facility is not a problem. It is located at the Central Bank, which has carried out repo-operations and central rediscounting operations for several years. The issue is making the recycling facility operational. In the past, the Central Bank had felt that it did not have the legal authority to issue U.S. dollar-denominated bonds. Also some congressional pressure existed not to issue any bonds. However, Trole II now makes it clear that the Bank has the legal basis to carry out that action.

On restructuring bank assets, while progress has been slow, general agreement existed on how to deal with small loans, below $50,000 of households and corporations. While that restructuring was involuntary, it seems to have created no problems to the banks. Additionally, banks and corporations have until November of this year to reach agreements on how further restructuring is to be carried out. However, staff is somewhat concerned that the superintendency of banks has not been active enough to ensure an early implementation. In particular, staff have yet to see the formation of a monitoring/arbitration unit in the superintendency, or of credit committees of intervened and nonintervened banks and large bank customers, to oversee the process. Staff will be encouraging the authorities to move ahead more aggressively during the second review.

On real exchange rate developments and effects on competivity and growth, it is too early to know what the implications could be. However, by the end of this year, over a two-year period, only a small real exchange rate degree appreciation is likely to have taken place. Significant challenges for the authorities lie ahead over the medium term, given the differences between Ecuador and the United States, which would put continuous downward pressure on prices in Ecuador for several years. Immediate implications for the authorities' policy actions would be to push ahead with structural reforms, particularly in labor markets and strengthening the social safety net. However, once dollarization has been completed, the options are limited for maintaining competition.

On further reductions in fuel subsidies, staff expect the authorities to implement the planned increase in the cooking gas prices, originally planned for July, to be implemented in October. Thereafter, the timetable depends on revenue developments. At a minimum staff would be looking for new price increases or further reductions in subsidies in January 2001 to complement the impact of the tax reform. Developments, between October and January, in non-cooking gas prices, will be discussed with the authorities in the second review, and also depend to some extent on revenue projections.

Mr. Yakusha made the following statement:

Ecuador has taken some important steps on the road to recovery and the worst of the crisis appears to be over. With dollarization proceeding at a rapid pace, GDP growth, fiscal and external developments and the liquidity of the banking system appear to be doing better than expected. Yet the situation continues to be fragile. Inflation continues to be running at a very high pace, external debt is very large, the banking system is weak and the economy is largely dependent on oil revenues.

The focus of economic policies in the period ahead should therefore be on fiscal consolidation, debt restructuring and implementation of a wide spectrum of structural reforms. For these to be implemented, the necessary political consensus needs to be in place.

As regards fiscal policy, it is essential that the deficit continue to decline so as to counter the loss of the monetary policy tool and thus contribute toward the disinflation effort. I wonder however, given the extremely adverse social and political conditions prevailing, whether a more gradual approach would still be acceptable. At any rate, it is extremely important for the authorities to proceed with tax reform so as to increase revenues and facilitate a further fiscal adjustment. In addition, new revenues will be needed in light of the planned abolition of the financial transactions tax and the import tariff surcharge. Perhaps, more importantly, new revenue measures are needed to reduce fiscal dependence on oil revenues which accounted for 40 percent of total revenues in 2000.

On the expenditure side, the planned reduction in expenditure as a percent of GDP amidst a very high inflation environment is welcomed. However, the authorities must take note of the need to maintain social peace if the program is to succeed. In this regard, the authorities should improve the targeting and efficiency of existing social programs. Given that additional planned measures will exert a further negative impact on the poor [e.g., increase in the price of fuel and cooking gas], the authorities should make every effort to keep social spending constant in real terms. In part, this can be achieved by lowering energy subsidies. But admittedly the room for a wide expenditure reorientation is small. Indeed, interest expenditure and wages account for about two thirds of current expenditure and the fiscal costs of bank restructuring will be substantial. Thus, while the staff considers as unfortunate the reduction in capital expenditure [par. 59], in the absence of a considerable increase in revenues I would not rule this out. Given the current unusually difficult conditions facing Ecuador, the choice between current and future consumption (which is what capital spending decisions essentially involve) is a tradeoff which one could reasonably resolve in favor of the former.

In the external sector, there is also a need to put the current account on a more sustainable basis as the current surplus reflects to a large extent strong oil exports. In contrast, the non-oil current account is expected to deteriorate sharply in 2000 from a deficit of 2.4 percent in 1999 to a deficit of 9.6 percent in 2000 not withstanding the sharp depreciation of the real effective exchange rate. Given the sharp decline in non-oil export volumes [Table 1], I would like to hear the staff's view regarding any possible competitive weakness in Ecuador's export sector. Any effort to reduce high external vulnerability of Ecuador will have to address the country's large external debt. The debt exchange which has been recently completed is an important step in reaching a cooperative solution with private creditors to secure financing for the program. But to fully normalize relations with foreign creditors, the authorities must also engage in good faith negotiations with the Paris Club creditors on mutually agreeable terms, taking into account the limited payments capacity of the country.

Progress in the banking area is welcomed despite some delays. I note in particular the introduction of a voluntary scheme to restructure the large debts owed to banks by households and corporations as well as the establishment of a liquidity support fund for banks. The establishment of loan classification and provisioning rules according to international standards is also a welcomed development [24]. In the period ahead I would like to underscore three important factors. First, the need for more government to stay the course and resist political pressures for more generous treatment of debtors. Second, the need to proceed rapidly with bank restructuring so as to minimize fiscal costs. And third, the need to strengthen the independence of the central bank to enable it to carry out its mandate free from political influence. On the issue of the interest rate ceiling, I am a bit sympathetic with the authorities approach given the currently limited scope for competition and the impact which increased competition might have on banks' balance sheets. The arrangements instituted by authorities, however, should be considered only as temporary until conditions more conducive to competition are put in place (i.e., a strengthening of bank positions via mergers and other forms of restructuring as well as strengthening of supervisory and prudential standards). In this regard, I would appreciate staff's comments regarding the prospects for foreign bank participation in Ecuador's banking market. In particular I would like to know more about the arrangements for liquidity support for foreign banks and whether these would be undertaken by the central bank of the home or the host country.

Finally structural reforms aiming at increasing the flexibility of the economy are especially important in the context of Ecuador's dollarized economy. In particular labor market reforms, aiming at more flexible employment practices, should be accelerated so as to enable real flexibility to act as an alternative to the exchange rate adjustment in the case of asymmetric shocks. Structural reforms aiming at accelerating growth should also receive a priority given Ecuador's modest growth rates.

Mr. Shojaeddini made the following statement:

We thank staff for the well-written papers, as well as their hard work, and Mr. Portugal and Mr. Yepez for their insightful statement. The program supported under the Stand-By Arrangement has been successful in bringing stability to the financial markets and preparing the grounds for resumption of growth thanks to the authorities' perseverance in policy implementation as many directors pointed out this afternoon. It is encouraging to note that the performance under the program was better than expected. Nevertheless, we agree with Mr. Shaalan and Mr. Sakr and other directors that it would be premature to consider that the crisis is already behind us, and that much more needs to be done.

We welcome the bold steps taken by the authorities in adjusting fuel prices and the speed at which dollarization is proceeding. To be sure, for dollarization to be successful, implementation of supportive policies and structural reforms as well as international financial assistance are necessary. The recent progress made in restructuring the debt to external private creditors is a significant achievement. This, in combination with anticipated support from Paris Club and increased official and private flows, would help Ecuador to close this year's financing gap and secure the necessary financing for the medium term. We broadly agree with the staff appraisal and support the proposed decision. We would like to make a few comments for emphasis, on fiscal policy, monetary policy, and structural reforms.

On fiscal policy, like Mr. Milleron and Mrs. Mateos y Lago, we consider the deficit targets for 2000 appropriate. Nevertheless, for achieving fiscal viability, in addition to fiscal restraint and discipline a greater effort is needed in diversifying budget revenue. In this connection, like other speakers, we welcome the government's intention to submit to the congress a proposal for a comprehensive tax reform as outlined in paragraph 36 of the staff report.

On the expenditure side, we welcome the priorities contemplated by the authorities as to supporting vulnerable groups and poverty alleviation. However, in view of the widespread poverty and its high impact we would emphasize the need for protecting social expenditures against unforeseen adverse fiscal developments. The authorities would also need to proceed steadfastly with improving the administrative and implementation capacity of social programs and their efficiency. Moreover, we endorse the call by staff and other directors to accord to public investment programs in view of their impact on economic growth and employment.

On monetary policy, financial markets should remain free of direct government interference. However, the problems arising from market imperfections during the transition to market based system should be properly addressed. In this connection the new method of calculating the usury rate is a welcome step in financial sector liberalization. Reducing special provisioning requirements against bank loans to corporate and households is another step in the right direction. It is also necessary to establish a timetable for removing the restrictions on service fees of financial institutions.

As to the financial sector restructuring, like Mr. Vettas, we welcome the approval by the Banking Board of regulations for a voluntary, case-by-case approach to restructuring of household and corporate debt to banks. As Messrs. Portugal and Yepez indicate, this scheme has improved the solvency of corporate debtors and, thereby, aided the economic rebound. We also consider the proposed amendment to the financial institution law, allowing more flexibility in retaining ownership and control of a bank by shareholders, an important step in providing incentives for the recapitalization of banks from private sources.

Finally, the need for deepening reforms in other structural areas in support of increasing productivity and growth potential can not be overstated; we support the authorities' plan in this respect and encourage them to move steadfastly in its implementation.

With these remarks we wish the Ecuadorian authorities full success in meeting the economic challenges ahead.

Mr. Burnashev made the following statement:

The Ecuadorian authorities are to be commended for their progress in stabilizing the economy and proceeding with necessary reforms. We agree with Mr. Portugal and Mr. Yepez that the economy is indeed picking up and that there are signs of incipient macroeconomic stabilization, supported by improved confidence and favorable external conditions, in particular the surge in oil prices. Needless to say, substantial risks remain, and there is no place for complacency.

In a dollarized economy, fiscal policy and structural reforms become the principal means of promoting recovery and cushioning unexpected shocks.

Ecuador's substantial public debt and the vulnerability of its commodity exports to the market conditions require a tight and balanced budget even in times of social distress. In addition, no broad based economic recovery can be achieved without active private sector development and increased private investment in key sectors of the economy. Private investment largely depends on a revival of investor confidence, both domestic and foreign. This will first of all require political stability and credible implementation of reforms. As in many transition countries, the macroeconomic stabilization will be only temporary unless it is backed by the willingness of the public to accept the costs of adjustments following years of economic mismanagement. The authorities also face a formidable challenge in that they must overcome the power of entrenched special interests in order to set the economy firmly on a path of sustained growth. Since I broadly agree with staff's appraisal and with previous speakers, I will just comment briefly on two important issues: achieving a sustainable external position, and proceeding vigorously to restructure the financial sector.

In present circumstances, the key to closing Ecuador's financing gap for this year and ensuring medium-term external viability will be to re-establish the country's access to the international capital markets. The staff rightly points out that Ecuador's fiscal position will be very tight even with a successful debt exchange, leaving no room at all for policy slippages. Regrettably, the authorities have not yet managed to agree with the Paris Club on a rescheduling on "Houston plus" terms. Could the staff tell us whether there has been any progress since the end of July, especially whether Ecuador's creditors have recognized the need to finance the fiscal gap and maintain the reserves needed to back up the dollarization scheme?

I agree with the staff that it will be crucial to quickly implement the financial sector restructuring program in order to achieve macroeconomic stabilization in this dollarized economy. To make Ecuador's financial environment competitive, the banking system must be restructured and consolidated by reducing entry barriers for foreign banks and encouraging the privatization of domestic banks. I share the authorities' concerns about the costs of the restructuring, but see no reason to begin setting interest rates administratively. For one thing, high inflation soon turns real interest rates negative, which leads to misallocation of scarce financial resources, discourages banks from improving their portfolios, and create potential liquidity problems. Interest rate caps generally shift lending risks from bad to good borrowers (often from large, inefficient public sector entities to viable private businesses). For another, low interest rates contribute to capital flight, increasing a country's vulnerability to external shocks. I therefore urge the authorities to take a consistent approach. If they say "yes" to dollarization and give up independent monetary policies, they should let interest rates follow the markets. Recent actions indicate that the authorities have themselves realized this, and are moving in the right direction.

Lastly, I join other speakers in urging the authorities to maintain the momentum of structural reforms, especially in the present more favorable external environment. As Ms. Lissakers has already noted, the authorities should pay particular attention to the risk that counterfeit dollars may be introduced on a large scale since the population is not accustomed to the new currency. Also, the dollarization may attract dollars amassed in the course of criminal activity that can more easily be laundered now that these notes are in heavy demand and inflows are nearly impossible to control. These two risks are quite worrisome and if left unchecked, could compromise the dollarization scheme.

With these remarks, I support the proposed decision and wish the authorities well in their endeavors.

Mr. Donecker made the following statement:

Since we are in broad agreement with staff's recommendations, I will focus my remarks on just two points at this stage of the debate; the debt exchange and the postponed cutback of generalized subsidies. The latter include the upward adjustment of fuel prices to international levels. We understand that these measures are not popular and will have social impacts. However, we would like to remind staff of its previous assessment of the implications of these subsidies. Therefore, we are somewhat surprised that some next steps, in particular with regard to the abolition of subsidies for cooking gas and targeted measures to compensate for the negative effects on the poor, have also been postponed until the time of the second review.

On the debt exchange, we would like to congratulate the authorities on the successful completion of this difficult venture. The significant reduction of the overall stock of eurobond debt and cash flows for the next years is a major achievement. The debt exchange is an example of successful private sector involvement. It contributes significantly to the reduction of the financing gap.

Against this background, the relatively high cash payments in the year 2000 are justifiable. Regrettably, the buildup of the cash reserves are achieved through increases in domestic arrears which could have been avoided given the nature of those arrears. We take note that the authorities have committed themselves to moving domestic arrears reduction back on track by the end of September.

Finally, let me express our concern and regret about the substantial outflow of human capital. According to recent newspaper reports more than 150 000 people left Ecuador last year because of the gloomy economic perspectives. These mobile people belong to the elite of a country's work force. Staff's comments on this would be welcome. We support the proposed decision and wish the authorities all the best in their efforts to create a sustainable and resilient economic framework.

Mr. Liu made the following statement:

The Ecuadorian economy has undergone massive and positive changes since the launch of the Stand-By Arrangement. In spite of the changed economic management team, narrowing access to the international market, and divided views on certain important reform initiatives between the government and the congress, the authorities' steadfast implementation of the program and their great efforts to address the chronic structural weaknesses along with the rapid dollarization process have turned the economy around for the better. As the balanced staff report and the pointed buff by Mr. Portugal and Mr. Yepez have indicated, the Ecuadorian economy has witnessed clear signs of the beginning of a broad-based recovery. Improvements on many fronts have been realized faster than expected and most of the performance criteria under the program have been met, with a few exceptions. The authorities should be commended for their remarkable achievements and deserve our support. Therefore, this chair endorses the completion of first review and the requested waivers.

Looking ahead, the authorities fully recognize that the risks confronting the sustainability of the economic recovery and assurance on the medium-term viability of the external and fiscal positions will require further arduous efforts in confidence rebuilding, institutional reform and restructuring, with little room for any significant policy slippage. We are happy to learn that the government's recently promulgated Trole II law will take effect soon, if there is no challenge from the congress, thus laying a fairly good base for the next round of reform. The successful accomplishment of these reform initiatives requires careful program prioritization and the assurance of further financial support. These elements are crucial to the sustainability of the program, and particularly important under the constraints of the complicated political environment, the extremely weak fiscal and external positions, and the dollarization process.

This being said, I in general agree with the thrust of staff appraisal, and would like to make a few brief comments on the some points:

Fiscal policy remains central to the program. It is gratifying to note that a better-than-targeted performance has been realized in fiscal consolidation. The bold measures taken in the upward fuel price adjustment, greatly reducing fuel subsidies, and tightened control on both fiscal revenues and expenditures are welcome. We support the authorities' move along these lines in the second half of the year. In this context, due attention needs to be paid to two elements. One is the potential upward adjustment of cooking gas prices. Specific and well-targeted compensation may be warranted given the large proportion of the population (almost 70 percent) in poverty. Second, with regard to the continued infrastructure expenditure cuts, without any doubt, improved implementation efficiency will offset partial shortfalls, but cannot compensate for the total deficit. Every possibility needs to be explored to maintain such expenditure at an appropriate level to facilitate medium-term growth potential.

I welcome the step forward to normalize relations with foreign creditors as evidenced by the agreement reached on the debt exchange deal. Appropriate debt rescheduling to be agreed with the Paris Club next month is extremely desirable. Moreover, staff rightly points out the importance of maintaining foreign banks' exposure under inter-bank and trade-related credit lines. The authorities are encouraged to spare no efforts to improve relations with foreign banks and, in due course through their intervention, to clear banks' credit line arrears.

As for the interest rate cap, I tend to share the view expressed in the gray of Mr. Milleron and Mrs. Mateos y Lago's, not only for concerns about the banking industry's lack of capable risk management but for the system's substantial liquidity constraints, I believe the interest rate will go very high without appropriate limits and thus may threaten the political viability of the program.

With these comments, this chair would like to support the proposed decision and wish the Ecuadorian authorities continued success in their future policy endeavors.

The staff representative from the Western Hemisphere Department made the following further remarks:

Staff see three practical problems with setting asset recovery targets for the AGD. First, the sales of AGD assets are market transactions, including auctions in many cases. The AGD would be placed at a clear disadvantage if staff set quantitative sales for a certain period. Second, the experience of asset recovery in countries with banking crises lies between 0 and 30 percent in terms of recouping book value of assets. This makes it very difficult to set a meaningful asset target, particularly as a performance criteria. Also, asset recovery is a timely and difficult process, particularly in Ecuador with its limited human capital. AGD and the banking supervision is still relatively weak, and it is not clear that staff could set meaningful indicative targets within the period of the Stand-by Arrangement. Therefore, staff prefer not to go in that direction.

Staff do not mention any performance criteria for the second review, with regard to the fiscal accounts issue and the accumulation of freely disposable reserves, because that review is going to focus on how to distribute any overshooting of fiscal revenues. It is not possible to set performance criteria until that issue is settled with the authorities.

The shift in the current account in 1999-2000, does not represent a competivity problem. Considering the crisis regarding capital outflows, the deterioration in the trade balance this year is not an unwelcome development—it may be a sign of economic recovery--but staff would reserve judgment on competivity issues until more experience is gained with dollarization.

On progress with Paris Club discussions, the authorities and staff have briefed the Paris Club on the debt exchange offer. The authorities have also discussed the issue with the Paris Club Secretariat, including the broad outlines of the next rescheduling.

On the issue of cooking gas, it was agreed with the authorities that there would be an increase in the cooking gas price in October. Staff allowed that increase, originally scheduled for July, to slip because the authorities had increased the prices of other products by substantially more than they had committed to in the memorandum of economic policies. The discussions in the second review will take up the issue of whether a need exists to increase other domestic fuel prices further this year. As previously mentioned, that will depend on the revenue projections, but staff would be looking for increases in January to complement the tax reform. However, the increase in cooking gas price would generate only about $10 -12 million in revenue in 2000.

Emigration is a serious problem, which does not only affect the elite in Ecuador, such as doctors and other highly qualified staff, but the majority of emigrants unskilled. That problem, however, is unlikely to change for at least a year, until the situation in the local labor market improves substantially.

The Acting Chairman acknowledged the gratitude of the Board to staff. He also mentioned that before fuel prices were raised in Ecuador, management had asked staff to analyze previous cases, but that no successful examples of implementing such price increases without resulting in significant unrest, existed. Therefore, it was a considerable achievement by the Ecuadoran authorities to have carried the increases out successfully. The Fund needed to study how exactly that was achieved.

In addition, the Fund needed to monitor closely the effects of dollarization, which appeared to be succeeding, despite that preconditions believed to be necessary for dollarization had not been fulfilled.

Mr. Portugal made the following concluding remarks:

I would like to thank staff and management for this well-written, accurate and candid report, as well as for the support and the technical advice that has been given to Ecuador throughout the period. I would like to also thank my Board colleagues for the continued support for Ecuador when risks were high and the situation was difficult. That support has been confirmed today in completing the first review of the program. It would have been impossible for Ecuador to succeed otherwise.

We have come a long way on a treacherous road. During the initial discussion on the approval of this program huge risks existed; Board members had doubts whether it would be possible to increase the prices of oil without major social unrest; there were uncertainties about the freezing of deposits and the impact on the banking system, and whether that would lead to a massive outflow of capital; additionally there were the uncertainties with respect to private sector involvement and whether creditors would agree to the debt exchange.

Now, I feel rewarded by how much has been achieved by Ecuador in this short period in very difficult circumstances. Looking forward, I feel challenged by the enormity of what still remains to be done, recognizing that major obstacles exist and that a number of problems are still unsolved. We take seriously the suggestions that were made today, and I will convey them to our authorities. But because of what has been achieved so far, we now feel more confident in facing these challenges.

On the question of arrears that Ms. Lissakers asked, I confirm that the authorities' plan is to eliminate these by end of September, and are counting on the disbursements from the World Bank in that respect.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the improved economic performance in the first half of the year: the fiscal and external positions are stronger, and the banking system more liquid, than anticipated. Moreover, the dollarization of the economy is proceeding rapidly and there are indications of some recovery in economic activity. Directors saw this performance, combined with the successful debt exchange earlier this month, as indicative of a gradual return of confidence in the Ecuadoran economy and the beginnings of a reversal of the effects of several years of policy weakness and poor performance. They considered that the risks to achieving the authorities' objectives—while still substantial—have diminished over the past few months. Nevertheless, Directors noted the fragility of the current situation, as well as the contribution that higher world oil prices had made to the recent improvement. Against this background, they emphasized the need for broad and durable consensus to sustain the hard-won gains of the past few months, notably to keep the fiscal deficit low, create a more robust financial system, and deepen the structural reform process.

A weak fiscal policy, with growing fiscal deficits, high tax revenue earmarking, and revenues overly dependent on oil prices, had been important in undermining macroeconomic performance in the 1990s. Directors therefore particularly welcomed the fiscal adjustment this year, including through the reduction in domestic fuel price subsidies in May. They emphasized the need for a tight fiscal stance for the foreseeable future, with substantial primary surpluses and lower overall deficits to support dollarization in the near term, and to achieve a sustainable fiscal and external position over the medium term. This would require a comprehensive tax reform to increase non-oil tax revenues and to reduce the earmarking of tax revenues. The expected revenue loss from the elimination of some taxes and duties would need to be compensated by a broadening of the tax base, changes in the tax rates for the VAT and income tax, and the introduction of excises on domestic fuel. These measures would need to be included in the budget proposal for next year.

Directors noted that fiscal consolidation would take place in an environment of substantial demands on public expenditures arising from the urgent need to improve the social safety net—in part to protect living standards of vulnerable groups during the process of restructuring. Moreover, the authorities need to reverse the deterioration in social indicators, and repair and improve public infrastructure. Given the fiscal constraints, Directors encouraged the authorities to further reduce subsidies on domestic fuels and maintain tight control over expenditures. They urged the authorities to give high priority to improving the targeting of public expenditures and to strengthening the capacity to implement capital projects. Directors welcomed the current reform proposal for the pension system which should move the system to a sounder financial footing and reduce its drain on the public finances. Directors also urged the authorities to move quickly to eliminate domestic payments arrears.

Directors were encouraged by progress in strengthening and restructuring the financial sector, in particular the schemes to recycle bank liquidity, develop a liquidity stabilization fund, and provide for a voluntary restructuring of the large debts to banks of households and enterprises. They encouraged the authorities to move forward with greater speed and determination in implementing the banking strategy so as to create a financial system that was efficient, competitive, adequately capitalized, and able to intermediate financial resources effectively in a dollarized economy. Directors noted that delays and inadequate measures already had added significantly to the fiscal cost of the banking crisis. They welcomed the greater interest rate flexibility implicit in the new calculation for the usury interest rate ceiling, but urged early removal of the ceiling and of the restrictions on bank fees.

The process of structural reform, which had moved forward with the two trolleybus laws approved in March and August of this year, was seen by Directors as vital to improving a lagging productivity performance and laying the basis for long-term sustained growth. The laws paved the way for a more flexible labor market, the privatization of key industries, and increased private sector participation in the oil sector. Directors encouraged the authorities to move ahead aggressively on the privatization front while proceeding, at the same time, with complementary measures to improve the working of the labor market. Some Directors also noted that early steps toward a more liberal trade regime would complement other structural reforms.

Directors noted that the authorities had made significant efforts to normalize relations with private sector external creditors, leading to the successful conclusion of the debt exchange on August 23. They urged them to reach agreement with Paris Club creditors at the September meeting, and to conclude negotiations with foreign banks to stabilize and rebuild their trade credit lines and related exposure to Ecuador. This would enable the financing gaps to be closed in the near term, and make a substantial contribution toward a more sustainable fiscal and external position in the medium term.

It is expected that the next Article IV consultation with Ecuador will be held on the standard 12-month cycle.

The Acting Chairman’s Summing Up of Points Related to the First Review Under the Stand-By Arrangement with Ecuador

Directors emphasized that a broad and durable national consensus would be needed to implement the policies envisaged under the program, notably a sufficiently tight fiscal policy to achieve fiscal sustainability over the medium term following the debt exchange. In this regard, they noted that the envisaged tax reform—to be submitted to congress in September—would need to secure a substantial fiscal adjustment to keep fiscal policy on the needed track.

Directors urged the authorities to take steps to restructure all domestic debt falling due over the next several years to reduce market uncertainties, rather than to restructure on an ad hoc basis. They observed that any need for further restructuring of domestic debt next year could undermine the banking strategy—as banks are large holders of government bonds—and economic recovery. Directors also noted that the ease with which the authorities would be able to roll over domestic debt would depend, in turn, on the prospects for fiscal consolidation.

Directors noted that, in addition to fiscal strength, successful dollarization would require greater labor market flexibility, swift implementation of measures to adjust to external shocks, and action to address the weaknesses of the banking system. While recognizing that the necessary measures could face opposition, Directors urged that they be adopted and implemented speedily. Directors also considered it important to strengthen the social safety net in order to minimize the social costs of economic restructuring.

Directors welcomed the intention to focus the next review on the fiscal program—and, in particular on tax reform—and on progress in implementing key structural reforms. They also encouraged the staff and the authorities to maintain the close policy dialogue that they had established in recent months.

The Executive Board took the following decision

Stand-By Arrangement—Review, Modification, and Waiver of Performance Criteria

1. Ecuador has consulted with the Fund in accordance with paragraph 3(c) of the Stand-By Arrangement for Ecuador (EBS/00/66, Sup. 2) and paragraph 2 of the letter dated April 4, 2000 from the Minister of Finance and Public Credit and the President of the Board of the Central Bank of Ecuador, in order to review the implementation of, and the financing assurances for, the program.

2. The letter from the Minister of Economy and Finance and the President of the Board of the Central Bank of Ecuador, dated August 10, 2000, with its attached Supplement to the Memorandum of Economic Policies of the Government of Ecuador (the "Supplement Memorandum"), shall be attached to the Stand-By Arrangement for Ecuador, and the letter dated April 4, 2000 and its annexed Memorandum of Economic Policies of the Government of Ecuador for 2000 shall be read as supplemented and modified by the letter dated August 10, 2000 and its attached Supplement Memorandum.

3. Accordingly,

a. Paragraph 2 of the Stand-By Arrangement for Ecuador shall be deleted in its entirety and replaced with the following:

"2. Purchases under this Stand-By Arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 85 million until June 15, 2000, the equivalent of SDR 113.346 million until October 15, 2000, the equivalent of SDR 151.14 million until December 15, 2000, and the equivalent of SDR 188.935 million until February 15, 2001."

b. Paragraph 3 (c) of the Stand-By Arrangement for Ecuador shall be amended by:

(i) deleting "August 14, 2000" after "June 14, 2000"; and

(ii) adding the following after "contemplated in paragraph 2 of the attached letter": "and in paragraph 2 of the letter dated August 10, 2000,".

4. The performance criterion set out in paragraph 3(a)(vi) for August 31, 2000 shall be as specified in Table 1 of the Supplement Memorandum.

5. The Fund decides that the first review contemplated in paragraph 3(c) of the Stand-By Arrangement for Ecuador has been completed and that Ecuador may proceed to make purchases in accordance with the provisions of the Stand-By Arrangement, as amended, notwithstanding the non observance of the performance criteria specified in paragraph 3 (a) (iv) and (b) (i) of the Stand-By Arrangement for Ecuador. (EBS/00/164, 8/14/00)

Decision No. 12275–(00/86), adopted
August 28, 2000

Exchange System

The freeze on demand and savings deposits with the banking system imposed by Ecuador gives rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a). In view of Ecuador's intention to eliminate this exchange restriction, the Fund approves the retention by Ecuador of this restriction until September 1, 2001, or the conclusion of the next Article IV consultation with Ecuador, whichever is earlier.

Decision No. 12276–(00/86), adopted
August 28, 2000

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/00/85 (8/24/00) and EBM/00/86 (8/28/00).

3. GHANA—POVERTY REDUCTION AND GROWTH FACILITY—THREE-YEAR ARRANGEMENT—SECOND REVIEW

Pursuant to Decision of August 21, 2000, paragraph 5, the Fund decides that the World Bank has concluded that the Interim PRSP provides a sound basis for the development of a fully participatory PRSP and for Bank concessional assistance. Accordingly, the Fund's completion of the second review under the three-year PRGF arrangement for Ghana set forth in EBS/00160, Correction 1 and Supplement 1 shall become effective on the date of this decision.

Decision No. 12277–(00/86), adopted
August 25, 2000

4. COMPLETION OF REVIEWS UNDER STAND-BY AND EXTENDED ARRANGEMENTS

The Fund shall not complete a review under a stand-by or extended arrangement unless and until all other conditions for the availability of an associated purchase have been met or waived. (EBS/00/172, 8/18/00)

Decision No. 12278–(00/86), adopted
August 25, 2000

5. COMPLETION OF REVIEWS UNDER ARRANGEMENTS UNDER POVERTY REDUCTION AND GROWTH FACILITY

In the Instrument to Establish the Poverty Reduction and Growth Facility Trust, the following shall be added at the end of Section II, Paragraph 1:

> "(f) The Trustee shall not complete a review under an arrangement unless and until all other conditions for the disbursement of the corresponding loan have been met or waived." (EBS/00/172, 8/18/00)

Decision No. 12279–(00/86), adopted
August 25, 2000

6. SDR DEPARTMENT—DESIGNATION PLAN FOR SEPTEMBER—NOVEMBER 2000

The Executive Board approves the designation plan for the quarterly period September–November 2000 as set out in EBS/00/174 (8/18/00).

Decision No. 12280–(00/86), adopted
August 25,2000

7. FINANCIAL TRANSACTIONS PLAN FOR SEPTEMBER–NOVEMBER 2000

The Executive Board approves the financial transactions plan for the quarterly period September–November 2000 as set out in EBS/00/173 (8/18/00).

Decision No. 12287–(00/86), adopted
August 25,2000

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Assistants to Executive Directors as set forth in EBAM/00/116 (8/23/00) is approved.

APPROVAL: June 14, 2001

SHAILENDRA J. ANJARIA
Secretary