

MASTER FILES  
ROOM C-525

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/153

2:30 p.m., November 3, 1993

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

Executive Directors

M. Al-Jasser  
M.-A. Autheman

H. Fukui

J. E. Ismael  
D. Kaeser  
A. Kafka

G. Lanciotti  
R. Marino

D. Peretz  
G. A. Posthumus

A. S. Shaalan  
D. E. Smee

Zhang M.  
A. G. Zoccali

Alternate Executive Directors

A. A. Al-Tuwaijri  
M. Sirat  
J. A. Solheim  
J. Prader

L. E. N. Fernando  
K.-T. Hettrakul

J. C. Jaramillo  
A. V. Mozhin  
J. Papadakis

O. Kabbaj  
B. S. Dlamini  
J. Dorrington

N. Toé, Temporary  
E. Wagenhoefer  
Y. Y. Mohammed

J. M. Abbott, Temporary  
A. M. Tetangco, Jr.  
Wei B.  
A. F. Jiménez de Lucio

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

Also Present

IBRD: S. H. Choi, Secretary's Department. Administration Department: P. K. Craig. Central Asia Department: P. Gotur. European I Department: M. Russo, Director. European II Department: J. Odling-Smee, Director. External Relations Department: M. R. Kelly, Deputy Director; G. Hacche. Fiscal Affairs Department: A. Tanzi, Director. Legal Department: R. H. Munzberg, Deputy General Counsel; J. M. Ogoola. Middle Eastern Department: M. D. Knight. Monetary and Exchange Affairs Department: P. J. Quirk. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; N. Kirmani, A. K. McGuirk. Research Department: M. S. Khan, Deputy Director; P. B. Clark, R. A. Feldman, R. P. Ford, A. Hoffmaister, N. M. Kaibni, F. Larsen. Secretary's Department: J. W. Lang, Deputy Secretary; R. S. Franklin, E. Friis, B. R. Hughes, A. Jbili, A. Leipold, M. J. Miller, A. Mountford. Treasurer's Department: D. Williams, Treasurer; D. Gupta, O. Roncesvalles. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Office of the Managing Director: P. R. Narvekar, Special Advisor; G. R. Saunders, Personal Assistant; J. Prust, H. Weisner, L. A. Wolfe. Advisors to Executive Directors: G. M. Blome, A. Chang Fong, R. F. Cippa, S. K. Fayyad, G. Y. Glazkov, J. Jamnik, P. A. Merino, R. Rainford, Yang X. Assistants to Executive Directors: M. Al-Atrash, S. Al-Huseini, J. M. Burdiel, A. Cathcart, D. Desruelle, G. El-Masry, A. Galicia, C. Gaseltine, S. Ishida, A. M. Koulizade, K. J. Langdon, B. M. Lvin, G. J. Matthews, S. C. McDougall, S. Narube, T. Oya, R. K. W. Powell, N. Prasad, E. Quattrociocche, M. Ryan, F. A. Sorokos, A. Sighvatsson, Wang X., Wang Y., Wu H.

1. WORK PROGRAM

The Executive Directors continued from the previous meeting (EBM/93/152, 11/3/93) their consideration of the Managing Director's statement on the work program (Buff/93/60, 10/21/93) for the period up to the spring 1994 ministerial meetings, together with a tentative schedule of Executive Board meetings (Secretary's Circular No. 93/123, 10/28/93).

Mr. Peretz made the following statement:

As always, there is no shortage of work to be done in the months ahead. In this context, I am somewhat alarmed by the Board's current light work load. In giving our views on relative priorities, I will try to identify those areas where I think work should have a particularly high or low priority. Silence on any topic implies that it falls into a middle group in my ordering. I will organize my remarks into the same broad subject areas as in the Chairman's statement.

On the world economic outlook, I very much welcome the intention to "devote particular attention to labor market policies," alongside the "sustainability of low inflation." The greatest service the Fund can give industrial countries in the current circumstances is to help us take the structural measures needed to achieve sustained low unemployment as well as sustained low inflation. Of course, the two are interdependent, and we have far too much experience with achieving neither. But low inflation is only one of the preconditions for low unemployment. Countries also have to take the whole range of measures needed to remove obstacles to properly working labor markets.

Between the world economic outlook discussions, the world economic and market developments sessions are working well. It is true that some are better than others. In part, this is due to accidents of timing, but more generally, the best discussions are those in which Directors speak candidly and frankly on controversial and sensitive issues. This can only happen if the sessions are 100 percent confidential.

In setting priorities we have to strike a balance between the importance of an issue and the probability of work on it delivering useful results. There can be no doubt that a paper on approaches to assessing the consistency of exchange rates with economic fundamentals would deal with an important subject, but I wonder a little about the chances of its revealing anything new and operationally useful. If this work is to proceed, it will be essential that due regard be given to market sensitivities. I would also hope that it will contain a sensible discussion of the way that real exchange rates can and should be expected to depart from long-run equilibria in reaction to different economic cycles

in different countries and to different countercyclical policies. I would hope it would also pay due regard to the way that real exchange rates can and should reflect structural developments and differences in propensities to save in different countries.

I welcome all the proposed areas of emphasis for the Annual Report on Exchange Arrangements and Exchange Restrictions. I hope that the analysis of Article VIII acceptances will include an analysis of the consequences of accepting the obligations of Article VIII by members that have already removed all the restrictions they had previously enjoyed--or more accurately, suffered--under Article XIV. It is hoped that this will give some reassurance to those members who have been standing at the end of the Article VIII diving board for some time, but remain reluctant to take the plunge. Just as important as current account convertibility will be the emphasis on capital account convertibility and experiences with capital controls. I also hope that the section on exchange rate regimes and practices will include references to all the various types of regime in the world, including the operation of currency boards, drawing on the interesting recent working paper on Estonia and also the longer history of some other currency boards.

I welcome the proposed papers on trade and would welcome even more a successful conclusion to the Uruguay Round. I wonder, listening to the U.S. debate on NAFTA, whether the Fund might not be doing more as an institution to inform public opinion around the world about the benefits of free trade--and the simple fact that opening markets is not a zero-sum game; everybody gains from it.

Now is not the time to have another debate on the merits or otherwise of an SDR allocation. I will simply limit myself to saying that it is clear that there is not sufficient support in the Board at present for an allocation or a redistribution. For as long as that remains the case, I suggest that there is little purpose in devoting scarce resources to any substantial further work on the subject.

According to the Chairman's statement, we can expect about six country items a week to come to the Board, if we adjust for the recess and Annual Meetings. There are, however, only 15 country items scheduled to come to the Board this month. On the other hand, 33 country items are tentatively scheduled for September 1994. Anything further that could be done to smooth the flow of country work and to match troughs in country work with peaks in policy-related work would be very much appreciated. I would also urge much greater use of the technique of agreeing routine items on a lapse of time basis. Indeed, I thought we had agreed at our last retreat that we would set aside some Board time

each week or so to consider which items on the upcoming agenda might be handled with only a short discussion or with no discussion at all. I have lost touch with where that proposal has got to, and maybe the Secretary could enlighten me at some point.

I note that a paper reviewing Fund technical assistance will be included in the background documentation on the Board discussion on the medium-term budget outlook. Technical assistance is a major use of our resources and a major potential benefit to our members. It is so important that I believe that it is worthy of a separate discussion in its own right. Issues that should be addressed include the cost effectiveness of different types of mission--for example, are frequent, small, short missions more effective than infrequent, larger or longer ones; whether and when it is more effective to use national experts rather than full-time Fund staff; which types of technical assistance the Fund has a relative comparative advantage in providing and which should be left to other organizations; the scope for improving coordination with other suppliers of technical assistance; how priorities are determined within the Fund for technical assistance, and how the overall cost of technical assistance is controlled; and whether there is scope for reducing the net cost of technical assistance through donor help where it is available and possibly through charging recipient countries. To give one example--when countries have loans from the World Bank or other institutions to finance technical assistance, why should the Fund not bid for the work?

I welcome the fact that the analysis of issues common to a number of countries will not be limited to members of formal regional arrangements. Two obvious cases for examination are southern Africa and the group of member countries suffering from the impact of sanctions against Serbia and Montenegro. With regard to work on countries that are members of formal regional arrangements, discussions with officials of the regional institutions should be informal and should focus on subjects where those institutions have competence. I note that the staff is scheduled to hold discussions with the European Commission on several subjects. While the Commission is clearly the right interlocutor in the EC on trade issues, I would hope that discussions on economic policy will continue to be with member countries and their central banks.

On the ESAF successor, I have nothing to say beyond reiterating the urgency and priority that I agree should be given to work on that matter.

The review of design and experience under stand-by arrangements and extended arrangements is also clearly very important. It seems to me that the backward-looking aspects of this review are precisely the kind of work that might be carried out by an

Evaluation Unit that is independent of the staff who had been responsible for the design of the programs being evaluated. In a sense, it is an elementary management principle that success or failure of policies should be the subject of some external test and not simply a matter of self-evaluation. I do not imply any criticism of the staff, whom I know has and applies the highest standards. In any event, I hope that the staff paper will make a serious attempt to examine counterfactuals, the lack of which, I believe, was a serious omission from the ESAF evaluation paper. Indeed, failing to look at what would have happened had there not been a Fund program is the standard mistake that is made by critics of Fund programs throughout the world.

I would also hope time will be found to examine the whole issue of enhanced surveillance for members without balance of payments need or without need for Fund resources in the conventional sense, and the role such enhanced surveillance can have in giving the necessary assurances to donors and creditors--including the Paris Club--without access to Fund resources, or perhaps in some cases with only extremely limited access. To give the necessary assurances, those "arrangements" would have to be as rigorous and transparent both in their design and their monitoring as conventional Fund programs with an upper credit tranche drawing. Enhanced surveillance in this sense will not be right for all Fund members, but that is no reason to deny it to those for whom it would be useful. I recall, Mr. Chairman, that at our last work program discussion you promised to see how this issue might be taken forward.

The papers on the fiscal content of Fund-supported adjustment programs in economies in transition and on quasi-fiscal deficits could usefully be considered together.

I agree that it would be useful to have a factual paper on staff work on environmental issues and on the linkage between Fund policy advice and the environment. But the paper should be narrowly focused on just that, as indeed should the staff work. Both this paper and the staff work should learn from, and be coordinated with, rather than duplicate, work in the World Bank.

Similarly, I hope that, on the whole, the Bank will take the lead in the work set out under the heading "Development Committee matters," with the Fund staff only making an input where it has particularly relevant and different contributions to make.

I do not believe high priority should be given to work on the Tenth Quota Review, for the same reasons that I mentioned in the context of an SDR allocation.

If there is to be a paper on the financial cost of operating the Fund and on burden sharing, then it should be a comprehensive paper. But the whole subject is complex, and this is not a matter that can be dealt with by tinkering. Any change in arrangements would inevitably be a compromise between parties preferring some aspects to others. And any comprehensive change would almost certainly be a drawn-out process involving a change in the Articles. I do not object to work starting on this. But being realistic--since nothing will change in the short or even medium run--I find it difficult to see this as a priority.

An assessment of the adequacy or otherwise of the Fund's precautionary balances, however, is a key input to every discussion of the rate of charge, and I welcome the commitment to provide a paper on this for Board consideration in January. This was advertised as a companion paper to the paper on burden sharing: while the issues are connected, it is certainly possible--indeed, necessary--to discuss the level of precautionary balances even if there were no change in the current burden-sharing arrangements.

On administrative matters, I very much welcome what you had to say about the budget at lunch yesterday, Mr. Chairman. Relevant to this subject is the sentiment expressed in the first paragraph of your statement--namely, that the road to confidence and stability begins at home with sound policies. I agree unreservedly. Governors also agreed; the Development Committee's communiqué stressed the need to maintain and improve cost effectiveness. I unreservedly welcome all the initiatives mentioned in this regard. I would welcome an indication of when we might discuss each of the issues listed. In particular, I am concerned that there is still no sign of the paper on the research program, which I think was promised some time ago. What is advertised here is a review of research policy: I had hoped to see a forward-looking review of the research program rather than a backward-looking paper. I still hope we will have a forward-looking paper at the research program and that Directors will have a change to comment on it. I also hope progress is being made on the recommendations of the Task Force on the Staff Survey.

One conclusion from that Survey was that the compensation system is not well understood by staff. In particular, there is a lack of understanding of the flexibility and room for judgment that were intentionally built into the compensation system. I wonder whether anything is being done to help educate the staff--or the Board--on that subject. Seminars might be one possibility. More generally, it is essential that there be full consultation and coordination with the World Bank on compensation and benefits issues. This does not necessarily mean the two institutions have to do the same thing, but if they choose to do different things,

they should do so in full knowledge of why they are doing so. The reason is very simple: where the institutions do different things, it can lead to resentment among one group of staff or another, and that is unhealthy.

Another issue where I am convinced that there are changes to be made that are desirable in their own right but which would also save money, and where coordination with the Bank is also essential, is the question of arrangements for the Annual Meetings. We will return to that issue in the near future.

The Chairman recalled that he had delivered a speech in Monterrey, Mexico the previous week that focused on the North American Free Trade Agreement. Among the questions raised by students and journalists was one concerning his view of the ideal profile of the President of Mexico. Part of his answer was "openness to trade." That was but one example of the efforts of management and the staff to do everything possible to educate the public on trade matters.

The issues Mr. Peretz had raised with respect to technical assistance were precisely those being considered in the staff paper, the Chairman commented. As to the Fund's research policy, management looked forward to having the sort of discussion with Directors that Mr. Peretz had described.

Mr. Al-Jasser made the following statement:

In view of the heavy work program you are proposing, Mr. Chairman, with which I am in broad agreement, I shall refrain from suggesting any additional items at this time. Instead, I shall make several selected comments, which, I hope, will help us focus on the main issues before us.

With respect to the world economic outlook, I particularly welcome the planned discussion on the impact of the international environment on developing countries. It is important to elaborate on the appropriate strategy that will make it possible to maximize the benefits and minimize the costs imposed by the international environment. Particular emphasis should be given to subsidies, trade barriers, and discriminatory taxation. Moreover, like Mr. Shaalan, I look forward to an in-depth study of the reasons for the substantial disparities in growth performance among groups of developing countries. Since last May's World Economic Outlook covered this issue, I presume that this time we shall address the issue from a different angle. I would appreciate any comments on that point. Regarding the economies in transition, I wonder whether the World Economic Outlook will examine various scenarios regarding the pace of adjustment, as this issue has been controversial, to say the least.



During our last discussion on the work program, like Mr. Kafka and Mr. Shaalan, I questioned the productivity of pressing ahead with the paper on the economic implications of unproductive expenditure. At that time, I noted that "the Fund has to guard its mandate carefully and not to allow itself to become involved in areas where it does not have a comparative advantage, no matter how critical and important they are." That view has not changed.

On the Fund's key surveillance role, the new format of the discussions on world economic and market developments has proven to be a useful and productive tool in enhancing this role. The paper on assessing the consistency of exchange rates is an important endeavor that should also strengthen Fund surveillance. I expect the analysis in this paper, unlike the one we discussed two years ago on the characteristics of a successful exchange rate system, to focus not only on the industrial countries, but also to cover the experience of a broad spectrum of countries at various stages of development. In addition, the paper summarizing issues in the international exchange and payments system should contribute positively to this analysis. Here, it is not clear whether and when Board discussion of this paper would be expected.

Recalling our discussion last May, I continue to believe that it is more useful to review commodity price developments in the broader context of a discussion of the terms of trade. An emphasis on terms of trade is especially important for the developing countries, where fluctuations in the prices of their commodity exports were only part of the problem. The other part is the ever-increasing cost of their imports. Such sharp deterioration in the terms of trade has complicated and, in some instances undermined, the adjustment efforts of these countries.

In preparing the international capital markets report, the staff should revisit the issue of prudential regulation in light of the explosion in the derivatives market. In addition to an update of developments in those markets, it may be useful to include an assessment of the possible warning signals that we may want to send, in order to safeguard the stability of the international monetary system. In his statement to the Interim Committee, my Minister expressed his concern about this issue. Others, including the former President of the New York Federal Reserve Bank, have also expressed such concerns.

As I look forward to the successful conclusion of the Uruguay Round, I also await the papers on its implications for the Fund and for the global trading system at large. Here, I support the inclusion of a review of the implications of regional integration in the comprehensive trade paper.

As to the issue of the SDR allocation, I welcome the continued work on this subject and shall not object to the preparation of papers on the reallocation and redistribution of SDRs. However, it is my view that this is only a detour away from the main issue of a new SDR allocation.

As to country-related activities, I welcome the continued movement to combine Article IV consultations with requests for use of Fund resources. This improvement notwithstanding, the heavy work load makes it critically important to improve scheduling and to smooth the flow of work throughout the year. It will also be helpful to introduce as few changes as possible in the schedule once it is set. The circulation of papers well in advance of the Board meeting would also be useful.

The importance of the technical assistance provided by the Fund was emphasized by my Minister in the Interim Committee. In this connection, and in view of the budgetary constraints we are facing, I strongly welcome the papers reviewing Fund technical assistance, including the role of the resident representatives. This should provide the necessary feedback to streamline and improve the cost efficiency of technical assistance.

With regard to policies on use of Fund resources, the review of design and experience under stand-by and extended arrangements is extremely relevant and timely. Moreover, as I mentioned during our last work program discussion, I welcome the paper on export credits, which I consider to be at the heart of the Fund's work. The paper on Fund support for debt and debt-service reduction should pave the way for the elimination of segmentation on the use of set-asides and augmentation resources. I trust that the proposed modifications would reflect the Board discussion that took place on this issue.

On Development Committee matters, I was surprised to learn that certain documents on the future of the Committee were provided exclusively to the working group. To ensure that the working group benefits from the comments of all concerned, those documents should have been circulated as well to Executive Directors.

With regard to the Tenth General Review of Quotas, I believe that it is not a priority item at this time. Without underestimating the importance of the quota review exercise, the fact that the liquidity position is projected to remain at comfortable levels through at least the end of 1996 calls into question the urgency of this project. On the issue of burden sharing, I am in agreement with Mr. Fukui's position.

On administrative matters, I am in broad agreement with your suggestions, Mr. Chairman. I particularly look forward to the midyear review of FY 1994 administrative and capital expenses. However, I strongly hope that we receive this important paper early so as to give it the attention it deserves. As regards the discussion of the Administrative and Capital Budgets for FY 1995, which is proposed for mid-April 1994, I recall that at the previous discussion on the work program I noted that the agenda for April is extremely crowded and indicated a strong preference for advancing the budget discussion. This remains my hope.

Missing from the section on administrative matters was any mention of the establishment of the Evaluation Unit. I am aware of the apprehensions some have about it, especially among the staff; however, it should be made absolutely clear that it is not meant to be an arm with pointing fingers. Instead, it is to be a small independent unit of objective professionals to help us ascertain the strengths and weaknesses of our programs ex post so as to continue improving our techniques of analysis and programming. It is utterly unfair to the concerned departments to be asked to evaluate their own analysis and programming. I hope that we will see this unit in the not too distant future.

Mr. Smee made the following statement:

Management and the staff are to be congratulated for successfully completing so much of the work program that was set out in the Managing Director's statement of May 20, 1993 and in the subsequent Board discussion on May 26, 1993. Structural budget positions in industrial countries have been examined in the world economic outlook exercise; sessions on world economic and monetary developments are up and running; the papers on trade and monetary issues with respect to the states of the former Soviet Union have been circulated; the ESAF successor facility has not been successfully resolved yet, but we continue to work on it; SDR allocation issues were certainly addressed; a paper on financing for developing countries was circulated and discussed at the Board, as were the impact of large capital flows, social safety nets and developments in the European Monetary System (EMS) and the Exchange Rate Mechanism (ERM), and the goal of a single European currency; and financial issues such as precautionary balances and the rate of charge were discussed and decisions taken in the Board.

Nevertheless, commitments were also made on May 26 that I believe were not acted upon at all or only in an incomplete fashion. The regional focus of Fund surveillance was lacking, beyond the backward look at the trials and tribulations of the ERM. Papers were promised but not produced on unproductive expenditure, on environmental issues, and on research activities

in the Fund. The Evaluation Unit has disappeared, notwithstanding the approval of the Board. Many Directors also believe that there is no need nor perception of need for unanimity before proceeding with its establishment. I will come back to this subject in relation to our luncheon yesterday.

I say all this both to congratulate management and the staff for their tremendous efforts over the past six months and to stress the need for us to set specific priorities for our future work program. We must get away from housekeeping lists.

I welcome the increased attention to be devoted in the next World Economic Outlook to labor market policies. This is a policy area that policymakers are struggling with most everywhere, and an analysis of sufficient depth can enhance the relevance of the Fund's policy prescriptions. Perhaps the staff could comment as to the scope of the analysis to be included. For example, would it include an evaluation of passive versus active employment policies?

I agree with the need for a paper on the outcome of the Uruguay Round as well as the proposed focus of a more comprehensive trade paper. Likewise, I look forward to the seminar on financial relations and trade policy reform in the states of the former Soviet Union and support holding a seminar on unproductive expenditure. I believe, however, that the proposed seminar on monetary policy options within the ERM could be broadened to address issues related to the implementation of Stage II of the Maastricht Treaty more generally.

I also agree with the staff's preparation of a paper on issues in the exchange and payments system, with particular attention devoted to the Fund's role. But, I do not agree with the staff's preparation of a paper dealing with approaches to assessing the consistency of exchange rates with economic fundamentals. Rather, it should deal with how the exchange rate can contribute to better economic fundamentals.

Market sensitivity is one cause for my concern, but I also believe that if this amounts to a rehash of purchasing power parity calculations for exchange rates and all its pitfalls, we certainly will not be adding much that is new or insightful to our policy dialogue. I thought that we had agreed at our retreat last February not to pursue this, notwithstanding that in its internal analysis the staff would examine different countries' competitiveness and internal and external balance issues.

We should instead look at individual countries in the context of their own economic goals and objectives, in light of developments and issues in the international exchange and payments

system. More specifically, are their own domestic goals and objectives appropriate, ambitious enough, and politically and sociably compatible? Are their domestic goals compatible with their own international goals and obligations? Are their policies compatible with their goals and obligations, both domestic and international? Are their policies compatible with international systemic developments and issues, such as deregulation abroad, regional trading areas, regional currency agreements, commodity cartels, and currency volatility? Exchange rate levels and regimes are not goals. They are policies. The economic fundamentals are the results.

The scheduled review of the Fund's program design and experience is most useful and timely. On a related matter, the Board approved the creation of the Evaluation Unit. The Managing Director now appears to be against the earlier Board decision. This must come up again soon formally in this room.

I am somewhat confused about the paper on the fiscal content of Fund-supported adjustment programs in economies in transition. Some elaboration from the staff on what gave rise to this topic being considered a priority would be appreciated.

I am pleased to see that a paper on the level of the Fund's precautionary balances will be issued well in advance of our discussion on the Fund's income for FY 1994 and the rate of charge for FY 1995. I presume that it will be a significant response to this year's Board discussion in which the staff was told to do a comprehensive job on provisioning.

On the administrative side, it is my understanding that the Board's proposed budget committee will have the opportunity to discuss the medium-term budgetary options and outlook prior the circulation of documentation to the Board. The whole purpose of the proposed committee is to get in at an early stage on the budget process in order "to provide a broad perspective to the Executive Board in its monitoring and review of the administrative budget in both formulation and implementation."

Having to make choices and restrain costs is never a particularly pleasant exercise for anyone, and many of the issues to be addressed, such as the Fund's travel policy, give rise to highly emotionally charged views. However, I believe that if we work cooperatively from the onset, we can find solutions that work to improve the functioning of the Fund within a reasonable cost structure. I support Mr. Peretz's proposal yesterday to have another meeting chaired by the Dean, where the Managing Director would be invited. We have heard your views, you have the paper prepared by the Dean, and now we must resolve outstanding issues.

I was again surprised to see the proposed paper on the Fund's research activity placed among administrative matters. I had been led to believe on May 26 that this paper would be part of today's discussion on the work program.

I appreciate that the paper to be prepared on an SDR allocation confines itself to strictly the issue of "new participants." However, as this chair noted last week, we find it difficult to place a high priority on discussing the Tenth Review of Quotas.

Mr. Zhang made the following statement:

The proposed work program, although heavy and demanding as before, is well prioritized and balanced. Therefore, I am in broad agreement with the thrust of the proposals. However, I have some comments on specific issues.

On the world economic outlook and systemic issues, we recall that at its recent meeting, the Interim Committee expressed serious concern about the industrial countries' continued weak growth performance with rising rates of unemployment and persistent protectionist pressures. Thus, we endorse the Chairman's view that the industrial countries should make further efforts in their medium-term fiscal consolidation and hope that the implementation of structural reforms will alleviate the present recession. Also, we encourage the Fund to strengthen its surveillance over industrial countries. In this context, we expect to see more policy advice given in the above areas in the forthcoming world economic outlook exercise.

As was generally acknowledged by Governors at the recent Interim Committee meeting, developing countries, as a whole, performed better with their economies, although performance varied among different groups and regions. This better performance was attributed to their strong adjustment efforts and reform policies. The staff is encouraged to draw experience from these successful countries, which will undoubtedly have a demonstration effect. However, the momentum of their economic growth cannot be sustained in the face of the rising protectionist measures that the industrial countries have adopted. In this connection, we fully endorse the proposal that the assessment of the Uruguay Round outcome, including its implications for the Fund, be taken up in the context of the world economic outlook discussion. We would also like to see a review paper on global trade policy and developments focusing on developments in regional integration, which could be submitted to the Board for discussion in the second half of 1994.

On the background paper for the spring world economic outlook discussion on developments in the debt situation, I

wonder whether it might overlap, at least in some part, with the paper on financing of developing countries and their debt situation.

On the paper in respect of economic implications of unproductive expenditures, for the same reasons given at the previous work program discussion, we are against a Board discussion of this issue in a seminar.

I can endorse the discussion proposals for the other world economic outlook-related papers, such as those on world economic and market developments, issues in the international exchange and payments system, and international capital markets.

On SDR allocations, the Interim Committee has requested the Board to continue its work on these issues. Our position is clear: we fully support an SDR allocation to all members while keeping in mind the needs of many new members who have not participated in previous SDR allocations.

The work load on country-related activities is particularly heavy owing to the strengthening of Fund surveillance and the continued high demand for the use of Fund resources. We wish that the discussions could be arranged as evenly as possible. The review of Fund technical assistance is an important paper, and, rather than including it in the budget discussion, perhaps a separate discussion is necessary. We also agree that the Fund should continue to strengthen the regional focus of its surveillance.

As to policies on the use of Fund resources and the design of policy advice, our priority is the ESAF successor. Every effort should be made to ensure the continuity of ESAF operations after November 30, 1993. We have no objection to the other proposed papers. However, it seems that several policy papers are tentatively scheduled for discussion in January 1994. Perhaps some of those could be scheduled for another month.

On the Tenth General Review of Quotas, we once again emphasize its importance and urgency. We are looking forward to discussing the proposed papers.

On financial matters, we give priority to the papers on the financial cost of operating the Fund and burden sharing.

Regarding administrative and related matters, we can go along with the Chairman's proposals. However, some issues, such as activities and resource utilization, research activity in the Fund, and travel policy, given their less urgent nature, could be postponed to a later time.

Mr. Toé made the following statement:

Like previous speakers, I welcome the Chairman's statement on the work program and share the view that it reflects the priorities set during the previous work program discussion and those indicated by Governors at the recent meetings of the Interim and Development Committees. We have no difficulty in supporting its general thrust. Although the timetable for Board discussions of country items indicates a heavy work load, we note that attempt has been made to even the distribution of work throughout the period November 1993-October 1994. We hope that, notwithstanding unavoidable reschedulings of Board meetings on specific country items, this balance can be preserved. We also hope that the work load associated with discussions on policy matters could, whenever feasible, be spread evenly over this period.

As I am in general agreement with the priorities set in the work program, I will limit my intervention to a few suggestions on the content of some of the research papers proposed under the headings of the world economic outlook and systemic issues, issues related to SDR allocations, and policies on the use of Fund resources and the design of policy advice.

On the world economic outlook and systemic issues, we note that the reasons for the substantial disparities in growth among groups of countries will be examined in the section of the world economic outlook paper devoted to issues pertaining to developing countries. For several years now, many African countries have been implementing adjustment programs without, except in a few cases, the expected pickup in economic activity. We therefore welcome the proposed focus on growth of this section because it could provide useful insight as to the causes of, and the required policy adjustments for, the poor growth performance of some developing countries.

We note also that the background documentation for the spring world economic outlook discussion will include a brief update on developments in the debt situation for developing countries with particular emphasis on the position of the poorest countries. We support this proposal, and we trust that the paper will address extensively the issue of the scope of debt relief required to enable heavily indebted low-income countries to devote meaningful resources to growth and make significant strides toward external viability. As the situation of many countries in my constituency shows, debt-rescheduling operations, even at the relatively concessional terms now being granted, have not yet allowed debtor countries to exit from the rescheduling process, indicating the urgent need for deep reductions in the stock of debt. The paper should highlight the exceptionally difficult debt-servicing problems facing these countries and make more vigorously the case



for the adoption of debt relief schemes involving a significant reduction in the stock of debt as called for by yourself, Mr. Chairman, on many occasions.

Regarding the paper on the behavior of non-oil commodity prices, in our view, the study should not be limited to reviewing recent trends and developments and to identifying the factors underlying these developments. The experience of commodity price support mechanisms and international commodity organizations could also be reviewed. In this connection, the paper could draw lessons from past experience and propose solutions to address, in the most appropriate way, the persistent decline in commodity prices.

As to the paper on approaches to assessing the consistency of exchange rates with economic fundamentals, I share the comments made by Mr. Peretz on market sensitivity and can associate myself with Mr. Smee's view. While we can see the theoretical usefulness of such a paper, we have doubts about its operational applications to the Board's work. We would therefore suggest that the research be carried out under the Working Paper series or be included in the background documentation for the general review of Fund surveillance.

On the scheduling of our discussions on world economic and market developments, we wonder whether the session contemplated in April could not be folded into the world economic outlook discussion scheduled for April 6.

With respect to issues related to SDR allocations, I share the view expressed by Mr. Shaalan and can associate myself with the comments just made by Mr. Al-Jasser. We believe that the issue of an allocation to new participants only adds strength to an already compelling case for a resumption of SDR allocations, and I hope that the proposed papers will help us to secure the widest support for such an allocation, which is fully justified by the provisions of the Fund's Articles of Agreement.

On policies on the use of Fund resources and the design of policy advice, the need to expedite our work on the ESAF successor to meet the end-November 1993 deadline and ensure the continuity of Fund support on concessional terms to ESAF-eligible countries cannot be overemphasized. As a broad consensus has emerged in the Board on the operational aspects of the ESAF successor as well as on its funding modalities, progress will now hinge on the collective efforts of both management and Board members in soliciting strong support from the capitals of potential contributors in order to reach the needed critical mass of commitments to start operations. We would therefore urge donor countries, developed

and developing alike, to come forward with their commitments in the spirit of true international cooperation.

On the review of design and experience under stand-by and extended arrangements, we are reassured by the indication that the paper will go beyond a review of conditionality per se and focus on analytical aspects of program design and on experience with programs. Such a focus is timely in light of the sweeping changes in the political landscape of many developing countries undertaking adjustment programs and in view of the integration of the economies in transition to the world economy. As we have stated on previous occasions, program design and Fund conditionality should take into account the need for consensus building on the reform measures in a democratic environment and should recognize that the success of a program and the best safeguard for Fund resources rest, ultimately, on the degree of public support for the program. The recent difficulties associated with program implementation in many countries undergoing political and economic transformation bear testimony to the need for some adaptation in Fund conditionality to the new social and political environment.

The review paper should also cover the short but interesting experience of economies in transition with program implementation. In this regard, we wonder whether the paper on the fiscal content of Fund-supported adjustment programs in economies in transition could not be included in the background documentation for the general review of program design and conditionality, as was done in the past.

As to the review of Fund technical assistance, it is proposed to include the relevant material in the background documentation for the medium-term budgetary outlook. While the budgetary implications of Fund technical assistance need to be assessed, in view of the increasing importance of technical assistance in Fund operations, this paper merits a separate Board discussion.

On administrative and related matters, we note and support the Chairman's proposal to discuss in an appropriate framework issues such as staff productivity, activities and resource utilization, the role of resident representatives, and Fund travel policy.

The Chairman, commenting on Mr. Toé's misgivings about the study on the consistency of exchange rates with economic fundamentals, observed that as the issue was at the core of the Fund's responsibilities, it had to be reviewed from time to time.

Mr. Toé said that he did not have misgivings about the usefulness of the paper; he had, in fact, proposed to include it in the documentation for the general review of surveillance. He did, however, have some doubt about

the usefulness of discussing the paper in the Board, in view of the sensitivity of the issue. For example, if the Board considered that Japan's exchange rate was not in line with economic fundamentals, would the Board propose that Japan take the necessary steps to realign the exchange rate? He was concerned about the market reaction to such a paper.

The Chairman remarked that, precisely because the matter was a sensitive one, it was important that the Board and country authorities knew and understood the technical and methodological underpinnings of staff assessments of the consistency of exchange rate policies with economic fundamentals. That was the purpose of the proposed paper. He had no doubt that the staff would treat the subject with appropriate confidentiality and tact.

Mr. Toé said that he was reassured by the Chairman's clarification on the purpose of the proposed paper. He agreed that member country authorities should understand the technical and methodological underpinnings of staff assessments of the consistency of their exchange rate policies. His concerns were on the practical implications of Board consideration of individual cases, and these concerns had been reinforced by the recent leaks of Executive Board discussions.

Mr. Fukui stated that he shared the concerns expressed by Mr. Toé and like Mr. Smee, could not imagine what would be the main thrust of the proposed paper. He would appreciate some elaboration on that point.

Mr. Al-Jasser recalled that he had raised a similar point and had referred to the Board discussion a few years earlier on the characteristics of a successful exchange rate system. That discussion had been, practically speaking, most relevant to the situation of industrial countries. He had therefore been pleased to see the proposed paper on the consistency of exchange rates, because it addressed the main mandate of the Fund. Moreover, the Fund had not refrained from advising countries, sometimes publicly, that the exchange rate either needed to be flexible--when it was being extremely diplomatic--or overvalued--when it was being blunt. Revisiting the methodology for determining what was consistent with economic fundamentals seemed to be a most relevant exercise for the staff, management, and the Board. The extent to which explicit case studies from the membership were used should be left to the discretion of management and the staff, although he would encourage them to provide historical cases, as it had during the Board's discussion of the European Monetary System and the West African zone franc.

Mr. Kabbaj made the following statement:

The Chairman's comprehensive statement on the work program covers a longer period than usual, and we welcome this longer perspective, which could be useful to the programming of the work of the staff as well as that of the Executive Board. We should, however, stand ready to modify such programming if unexpected circumstances warrant.

We broadly agree with the thrust of the Chairman's statement and wish to make only a few comments on some of the issues in the order in which they have been presented.

On the world economic outlook and systemic issues, we agree that our work should be geared toward the achievement of the objectives outlined in the 1993's Interim Committee Declaration on a cooperative growth strategy. While we welcome the proposed coverage for the spring World Economic Outlook, we believe that it may be too ambitious and could dilute the topics for discussion. A more selective approach, which would focus the attention of Ministers on a few important issues, may be advisable. One of these issues is clearly the impact of the international environment on the performance of developing countries and the substantial disparities in growth among groups of countries. In this context, we recall that this chair, along with others, requested on previous occasions that the question of sustainability of the rates of growth recently observed in some developing countries in the event of continued sluggish conditions in industrial countries should also be addressed.

Regarding the paper surveying selected developments and issues in the international exchange and payments system, we welcome the emphasis on progress with Article VIII acceptances, but would also encourage the Fund--although it is not in the purview of its mandate--to help members that are in a position to do so to achieve the objective of full convertibility of their currencies. As to the role of the Fund in promoting a sound international exchange and payments system, and this includes trade in our view, it is no secret that many developing countries have in the recent past boldly liberalized their systems, while industrial countries have been going generally in the opposite direction. Therefore, the paper should concentrate on ways and means to reinforce surveillance over industrial countries in these important domains. This should also be kept in mind in the preparation of the comprehensive trade papers to be considered by the Board before the 1994 Annual Meetings. More generally, we endorse Mr. Shaalan's and Mr. Al-Jasser's views in this regard.

With respect to issues related to SDR allocations, we welcome any further discussion and hope that those colleagues opposed to SDR allocations will reconsider their position. On the question of those members that have not participated in previous SDR allocations, we wish to reiterate our position that, although we sympathize with their case, we could not accept any solution that would penalize present participants. It is to be recalled that the staff has stated on previous occasions that the ideas, floated by some colleagues in this regard, would not be consistent with the Articles of Agreement.

On country-related activities, we have one comment relating to technical assistance. The Chairman has stated that the "technical assistance needs of individual countries will be reviewed in the framework of Article IV consultation discussions." While we concur with the proposition, we would like to make certain that it is not inconsistent with the present practice of accepting ad hoc and legitimate technical assistance requests in the intervening period.

On financial matters, we have taken note of the preparation of the paper on alternatives to the present system of cost distribution. In this connection, a more urgent matter in our view is the discharge by creditors of their share of the present burden-sharing system. While acknowledging that this category of member countries is protected by the floor on remuneration embodied in the Articles, we recall that the staff recently announced in the Board that proposals will be made to remedy this protracted situation, perhaps by reducing pro rata the contribution by debtors.

Mr. Solheim made the following statement:

The comprehensive work program addresses a number of issues of great interest and fundamental importance to this institution. Although we are in broad agreement with the proposals, we would like to comment on some issues.

In light of the high, and increasing, level of unemployment, we consider it particularly appropriate to devote more attention to industrial countries' labor market policies in the spring 1994 world economic outlook discussion. The disparities in growth among groups of developing countries have also been dealt with extensively in previous world economic outlook papers and by other institutions; but we are positive about further studies, if these can enhance our insight into the reasons for the disparities. Analysis of the role of stabilization and structural policies in economies in transition may prove useful, if these are also related to country-specific examples.

We are also pleased to see that the world economic outlook documentation will include a paper on unproductive expenditure. This topic may be well suited for a special seminar discussion.

While there may not be room for more background documentation for the spring world economic outlook exercise, the recent changes in weightings and their possible implications should receive greater attention by the Board at an appropriate time. In view of recent years' persistently too-optimistic growth forecasts, a thorough analysis of possible policy consequences of the devia-

tions between the projections and actual outcomes could also prove useful, for example, in the fall world economic outlook exercise.

We note with interest that a comprehensive paper on trade issues will be prepared for discussion. This is welcome, as the outcome of the trade negotiations will be of major importance for the future development of the world economy. The paper should particularly focus on those aspects of trade issues that relate to the Fund's surveillance role, namely, how protectionism affects countries in transition and other countries engaged in difficult adjustment programs. We would also stress the importance we attach to the Fund, as part of the surveillance policy, strengthening its general studies on the consistencies of exchange rates with economic fundamentals. Like Mr. Al-Jasser, we are looking forward to this paper, which could also serve as useful background material for how to improve the surveillance role of the Fund in this area. Moreover, we agree that the Fund should continue to strengthen the regional focus on its surveillance. In this context, we are looking forward to the seminar discussion on monetary policy options within the ERM.

As to issues related to SDR allocations, we support further work on the SDR issue. We concur that at the meeting in January we should focus on whether cancellation and redistribution of existing SDRs is a workable and acceptable solution to members.

On country-related matters, we assume that the work load of the Board is also one of the factors taken into consideration when determining the timing of consultations and reviews. Although we find the agenda for country-related activities acceptable, we concur with previous speakers that routine program reviews should more frequently be dealt with on a lapse of time basis. Although we welcome the return to normal consultation frequency, the possibilities of streamlining the mission-related work and the need for comprehensive background papers on recent economic developments papers should be considered further. For instance, for most industrial countries, largely policy-oriented reports may often suffice, and this would not conflict with the aim of focusing more on issues and problems that are common to a number of countries.

We would welcome a discussion of the Fund's technical assistance to central banks in the countries in transition and the coordination process with contributors. In this context, it may be useful to look at how we can best assume adequate follow-up work after the visits of technical assistance missions.

We look forward to the planned review on experience with conditionality. As an appropriate stance of fiscal policies is a prerequisite for a successful transition from a centrally planned

economy to a market economy, the proposed paper on the fiscal content of Fund-supported adjustment programs may be well suited for a seminar discussion.

The Fund should not involve itself in areas that can better be served by other institutions, but the staff work on environmental issues will, I hope, clarify the extent to which this is a relevant topic for this institution. In fact, it may even prove useful to include this paper on the agenda.

We welcome the initiation early next year of work on the Tenth Quota Review, and my authorities think that this work should be given high priority. With regard to the existing burden-sharing mechanism, we have pointed out several times in the Board that it cannot be considered equitable. We therefore welcome the fact that a paper on alternative modalities for the burden sharing, including amendment of the Articles of Agreement, will be prepared. In light of the relatively broad consensus at the last discussion of this issue, I am surprised by Mr. Fukui's and Mr. Peretz's remarks on whether this should be given high priority.

We consider it essential that, in the period ahead, the Board pay more attention to administrative and related matters. We are looking forward to the discussion of the medium-term budget outlook in December and to the many relevant administrative papers to be issued. However, the list of papers covers a broad spectrum of issues, and the appropriate sequencing and framework for the discussions will have to be given due consideration.

Mr. Ismael made the following statement:

The review of economic progress during the spring world economic outlook discussion should be closely linked to the Interim Committee's April 1993 Declaration. In particular, I would like to see some emphasis on the Declaration's central theme of policy cooperation and coordination and how this could be strengthened with the involvement of multilateral institutions like the Fund. One of the key areas that the Declaration identified as urgently needing reform is the labor market, and this subject could merit a background paper on its own. On fiscal expenditure, I am of the view that in order to promote a balanced perspective, any review should be comprehensive, as focusing only on one aspect such as unproductive expenditure could project a disjointed image. On the debt background paper, I would suggest that some attention be given to enhancing the Fund's role in alleviating the debt overhang.

On the exchange rate front, I feel that we have improved coverage of this primary mandate of the Fund with our regular

sessions on world economic and market developments, which will be further supplemented by the papers on exchange rate consistency and on exchange and payments system. In addition, I particularly look forward to the comprehensive paper on trade, which should analyze not only an individual country's trade policies but also regional trade arrangements. The paper could also survey global progress toward trade liberalization, one of the major pillars of this institution's policy dialogue, and look at possibilities of promoting this further.

I welcome the review of the design and experience under stand-by and extended arrangements, which should explore ways of integrating greater flexibility into the use of Fund resources so as to cater to the divergent and evolving needs of member countries. On the systemic transformation facility, I am somewhat surprised at the absence of any review of operations, and I would like to hear management's thoughts on this. Furthermore, I would like to see greater urgency given to the establishment of the ESAF successor. In a similar context, I welcome the papers on the Tenth Review of Quotas and, at the same time, I hope that our continuing discussions on the SDR allocation will take into account the views of the majority of Governors at the Annual Meetings, which clearly favored such an allocation.

The agenda for country activities again looks very demanding. As far as possible, every effort should continue to be made to integrate requests and reviews of Fund assistance into Article IV discussions. Overall, I feel that we have struck the right balance between country and policy matters. However, I think that we could be more successful than we were this year in avoiding bunching before the Annual Meetings. In addition, while we all seem to recognize the efficiency potential of the system of lead speakers in country discussions, somehow this continues to be difficult to implement, and we should all aim at improving adherence to the procedural guidelines.

Mr. Zoccali made the following statement:

The intense work program outlined by the Managing Director for the coming months calls for selectivity and flexibility in setting our work priorities as well as for further streamlining of work procedures, particularly on country-related activities. We endorse the comments of Mr. Fukui, Mr. Peretz and others for more use of lapse of time approvals and for revisiting the understanding reached on occasion of our last retreat in this regard. We are in broad agreement with the approach proposed, which aims at dealing more effectively with problems that are increasingly global and interrelated. Allow me, therefore, to emphasize a few issues to which we attach particular importance.



Our first priority remains increasing the effectiveness of the Fund's surveillance activities. In this vein, we welcome the general focus proposed for the World Economic Outlook--namely, prioritizing structural reforms in the industrial countries--and appreciate the intent to refine the interlinkages with developing countries to include the impact of the international environment on their economic performance. The spring World Economic Outlook could usefully integrate the background paper on unproductive expenditures, as long as it also addresses the issue of price support and export subsidy schemes in industrial countries. Similar treatment could be given to the paper on the behavior of non-oil commodity prices, although on this point we share some of the concerns expressed by Mr. Shaalan. This being said, the likelihood of a slower track of regional integration in North America or of a Uruguay Round impasse should be contemplated. An alternative trade scenario for the spring World Economic Outlook would enhance the credibility of the exercise even if a complete assessment of the outcome of the Round cannot be concluded by that date. The concept of vulnerability is not viewed by this chair as an entirely endogenous development. The fact that members are converging toward more open government and market-based economic principles and a clear outward orientation makes it necessary to factor in the implications of trade-related issues at an earlier stage than the envisaged for the comprehensive trade paper review, scheduled for before the 1994 Annual Meetings.

The paper being prepared on approaches to assessing the consistency of exchange rates with economic fundamentals can contribute to the effectiveness of the Fund's surveillance. A rigid methodology for assessing the adequacy of members' exchange rate policies might well prove to be counterproductive, however, if taken out of the Fund context, and we share the concerns expressed by Mr. Peretz and others regarding market sensitivity surrounding a paper intended for wide distribution. In any event, the analysis must be able to go beyond narrow definitions of economic fundamentals and incorporate new paradigms for measuring competitiveness at the microeconomic level, if it is to be meaningful in the presence of the broad-ranging structural reforms being implemented in many countries. Finally, we agree with Mr. Smee that the relevant question to be addressed is how exchange rate policy can contribute to better fundamentals.

We are also somewhat concerned that the planned survey of selected developments in the international exchange and payments system would draw exclusively on the inventory of individual members' systems provided by the Annual Report on Exchange Arrangements and Exchange Restrictions, as this source does not

always convey the true degree of openness or restrictiveness of existing arrangements. Consequently, this activity would warrant close coordination with area departments to ensure that restrictions are in fact on the books. Additionally, it is important that they be not just formally described but, more important, that they be assessed in terms of their economic repercussions, thus also serving to establish a priority for their complete elimination.

On policies on the use of Fund resources and the design of Fund policy advice, we share the importance attached to the ESAF successor and consider that priority should be given to reviews that are likely to result in a change of policy, such as the one envisaged on Fund support for debt and debt-service reduction. We agree with the modalities proposed for future work on environmental issues and continue to view financial and bank supervision reform as deserving more ongoing monitoring and reporting than what is presently envisaged in the annual international capital markets report, which will be available for discussion in mid-1994. We join Mr. Al-Jasser on the usefulness of extending the analysis to derivatives.

On systemic issues, as other speakers, we consider that the situation of members that have not participated in previous SDR allocations should not serve to detour us from the broader issue of the need for a new allocation, which we continue to view as appropriate and compatible with the Articles of Agreement.

On quotas, the delays regarding the implementation of the Ninth General Review warrant adopting a realistic approach toward the conclusion of the Tenth Review, which is fast approaching its already extended deadline. At the same time, we consider that the Fund's exceptional liquidity situation should not serve as the excuse for postponing consideration of either the working of quota formulas or the distribution of quotas.

With respect to financial matters, we welcome the priority now afforded to the papers on the costs of operating the Fund and the willingness to examine alternatives to the present system of cost distribution. The level of the Fund's precautionary balances is very much in our view a companion issue, which should be approached from a similarly broad perspective not only to help preserve the soundness and cost effectiveness of our operations but also the cooperative character of the institution.

We fully subscribe to the medium-term approach given to administrative and related matters aimed at consolidating budgetary expenditure while preserving the Fund's trademark professionalism. We particularly welcome forward-looking reviews of activities and practices as long as the budgetary implications

of practices or proposed modifications can be clearly identified and discussion of the relevant papers by the Board is appropriately sequenced so that they constitute an input for the preparation of the Administrative and Capital Budget for FY 1995 and beyond. In that regard, apprising Board members of developments pertaining to the Staff Compensation Review at an earlier stage than the almost back-to-back discussion with the Administrative Budget might also serve to strengthen the budgetary process. We join Mr. Al-Jasser in his preference for advancing somewhat both discussions envisaged for mid-April.

The Chairman commented that he could not offer much hope for advancing the Staff Compensation Review, as the timing was strictly dependent on the availability of data on comparators.

Mr. Tetangco made the following statement:

We endorse much of the Chairman's statement on the work program. Let me therefore offer just some brief comments on a few issues.

As a general point, we welcome the intention to take the lead given to us by our Governors to sharpen the focus of the Fund's work on policies to generate stronger growth and employment over the medium term. The plan to devote particular attention to labor market policies in the spring World Economic Outlook will form an integral part of this increased focus. However, I think we should not stop there. Our regular Article IV consultations provide possibly the best opportunity to assess labor market reforms and other programs aimed at reducing unemployment. Like Mr Al-Jasser and other speakers, we also welcome the discussion of the international environment's impact on developing countries and the investigation of reasons behind divergences in economic performance.

We are also pleased to see that trade issues will attract increased attention in our work program over the next twelve months. The successful conclusion of the Uruguay Round may well be the single most important event for the world economy over the coming year, and we must stand ready to assess the implications of its conclusion or its failure. We particularly welcome the comprehensive trade paper to be discussed by the Board prior to the 1994 Annual Meetings.

The wide range of papers that are planned to form part of the background to our discussions of the Administrative and Capital Budgets are all to be welcomed. Several of these papers could usefully be discussed separately by the Board, in particular, the papers reviewing research activities and the Fund's travel policy. As we have said on previous occasions, we believe that it is important that the Fund take the lead in increasing the efficiency

of its own operations, an objective that is also behind the Managing Director's efforts toward consolidation.

As to specific items, we believe that the paper on the consistency of exchange rates with economic fundamentals could be useful to some countries in terms of providing a framework for analysis. However, one would need to be very cautious in interpreting and using the results of such a study for reasons that have already been cited, including market sensitivities, but also in view of the complexity of the subject itself, which makes it extremely difficult to determine accurately whether an exchange rate is "consistent" with economic fundamentals.

It is highly unlikely that there will be agreement on a generalized increase in quotas in the near future. In our deliberations on this issue we could therefore concentrate our efforts on addressing those cases, such as Korea and Cambodia, where quotas are substantially out of line with their economic standing in the global economy.

Mr. Kaeser made the following statement:

I am in broad agreement with the general trust and orientation of the proposed program; therefore, I will limit my comments to the topics of particular relevance to this chair and to the issues on which I have somewhat divergent views.

The projected work load for both the staff and the Board is very heavy, perhaps excessive, and I think that it is time to set priorities. I understand that this is not easy to do. On the one hand, we have the routine tasks, each important in its own way, which rightly absorb much of the Fund's resources; on the other hand, we have a number of background studies aiming at a better understanding of the complex economic issues that the Fund confronts in its daily activities. All these studies are interesting. However, within the specific mandates assigned to this institution, I do not think that all of them are of primary relevance. In short, I can associate myself with most of the comments made by Mr. Fukui in this respect.

I welcome the orientation of the next world economic outlook exercise in line with the Cooperative Growth Strategy, particularly the attention that will be given to labor market policies. I strongly support the strengthening of the multilateral surveillance, both within the world economic outlook and the world economic and market developments framework. In this respect I cannot but regret the current practice of holding discussions on world economic and market developments in tandem with another important Board item, as was the case today. Surveillance should

be enlarged not only to include the review of the emerging financial markets in developing countries, but also regional developments inside and outside Western Europe, namely, in the states of the former Soviet Union or in the West African Monetary Union. In this respect, I am looking forward to the paper on monetary policy options within the ERM and the seminar discussion on it. As it was suggested by the staff during the recent Article IV consultations with Switzerland, my authorities would like to see the Swiss experience in monetary policy included in the staff paper as a case study of a non-ERM country with a flexible exchange rate system.

As to financial and trade relations between the states of the former Soviet Union, I can understand the perplexity of Mr. Fukui; but the Board can hardly adopt a wait-and-see attitude. Some of the candidates for the new ruble zone have Fund-supported programs, and staff missions are currently visiting these countries. It is the responsibility of the Board to monitor the activity and the risks of the Fund in this part of the world.

The strengthening of Fund surveillance, together with the continued high demand for the use of Fund resources, including technical assistance, explains the considerable work load with respect to country-related activities. This activity is at the heart of the Fund's mandate, and I will certainly not advocate any arbitrary reduction of it. To make the best use of scarce resources, I agree with Mr. Peretz that more transparency is needed, especially regarding technical assistance. In this respect, I welcome the proposed paper reviewing the Fund's technical assistance to be included in the background documentation for the medium-term budgetary outlook, but I do not think that this will be enough. As the seminar on financial relations in the states of the former Soviet Union will, I hope, bring to light, it is now time for a comprehensive Board discussion on technical assistance from a strategic point of view. The latest discussion on the Joint Vienna Institute shows clearly how keen the interest is and the wish of the national authorities to be involved in this matter. Furthermore, because of its nature and the amount of resources involved, a systematic and independent evaluation of the technical assistance should also be provided country by country. This could be the first task of an evaluation unit.

Linked to the world economic outlook spring discussion, I welcome the update on developments in the debt situation and the paper on the economic implications of unproductive expenditures; I would encourage a discussion of the latter in the context of a Board seminar. I also welcome the focus the staff is willing to give to environment and to competition policies in the context of the major periodic review of trade policy issues.

I am in favor of a discussion on the methods for assessing the consistency of exchange rates with economic fundamentals. This will provide relevant information, particularly to European countries, including Switzerland, in the context of the crisis of the EMS and of the future establishment of the EMU. Countries in the process of achieving convertibility could also benefit from the staff's expertise on this issue.

Concerning the SDR allocation, I can discuss the legal aspects of allocation and reallocation of SDRs to "new participants." As to further analysis of the modalities of an appropriate redistribution mechanism for a new allocation, however, my position remains that we should not deal with this aspect before a sufficient majority endorsing a new allocation is reached. This could save considerable human and financial resources that are much needed for more urgent matters.

As to policies on the use of Fund resources, I very much hope that the establishment of an ESAF successor can be brought to the Board for consideration before the end-November deadline, so as to ensure the continuity of this important activity of the Fund.

Moreover, I welcome the forthcoming review of design and experience under stand-by arrangements and extended arrangements as well as the paper and related seminar discussion on the fiscal content of Fund-supported adjustment programs in economies in transition. In this latter context, we think that it is most appropriate to focus on the compatibility of specific short-term budget deficit reduction objectives with the maintenance of social safety nets and public investments crucial to environmental protection, public health, and infrastructure. The issue of financial incentive taxes should also come under particular scrutiny.

On the Tenth General Quota Review, we have to fulfill the mandate given by the Governors. We should, however, keep in mind that the Ninth Review was concluded only recently and after long delays with a massive increase in the size of the Fund and that there is no urgent need for additional resources. I therefore think that we should recommend to the Governors to conclude the Tenth Review without a general quota increase, as has been done for some past reviews. I do not think that it would prove easy for the time being to find the needed 85 percent majority requested for a general increase. The same can be said for selective quota adjustments. But if we embark on a discussion on the justification for such adjustments, I think that we should substantially revisit the quotas of most of the states of the former Soviet Union.

On financial matters, I fully agree with the proposed program and welcome the scheduled discussions, which are of paramount importance, as I consider the monitoring and safeguarding of the Fund's financial soundness to be a top priority of the Board.

With respect to administrative and related matters, we are all aware of the need for a consolidation of the Administrative Budget, but we might have different approaches in this respect. In my view, if a rose tree becomes too bushy, the solution is not to reduce its water and fertilizer supply, but to prune and trim it, keeping only those branches that are bearing roses.

Mr. Posthumus made the following statement:

I will make only a few remarks on the Chairman's generally acceptable work program proposal.

The first is on the use of the phrase "outward-looking macro-economic policies" in the first paragraph of the statement. "Outward-looking" seems to have become less acceptable, and "inward-looking" seems to be en vogue again. This is very worrisome, but liberalization, internationalization, and open markets can never be taken for granted.

The bunching of Board work continues to be a problem. October and November of this year are particularly quiet months. Is it possible that the bunching is not only caused by the spring and autumn Interim Committee meetings, but also by the timing of the work program decisions? Would it help if the work program were prepared and decided halfway between the Interim Committee meetings?

As to assessing the consistency of exchange rates with economic fundamentals, I welcome this work and would add that it would also be useful to elaborate on the extent to which the exchange regime chosen affects the way real exchange rates can be kept consistent with the underlying fundamentals. Also, the impact of short-term and long-term interest rates on the real economy and on exchange rate movements should be assessed. These suggestions are related to recent discussions about the ERM, but they have a wider meaning. This work can also contribute to further discussions on the international monetary system, a subject which remains of interest to me.

A staff paper on the pattern of use and holdings of SDRs was issued in June and served as a background paper when we discussed an SDR allocation. In our view, this paper should be removed from the background, however comfortable that position may be. A discussion about the skewed distribution of SDR holdings and about

whether and how something might be done about this distribution is still warranted.

The comprehensive trade paper will certainly involve a great deal of staff work. However, the first months after the success or failure of the Uruguay Round would be a better time to take stock of the world trade situation. Is it possible to advance the entire subject so that it can be considered before the next Interim Committee meeting rather than before the 1994 Annual Meetings?

Strengthening of regional focus of Fund surveillance is an important part of our surveillance responsibilities. It is therefore of great importance that we look closely at developments in the ERM and at continuing efforts in Europe to work toward an economic and monetary union. The world has an interest in the way this process develops because of its influence on the world. The Fund should be the main spokesman for this interest. The way in which the Fund has behaved during and after the problems with the ERM in September 1992, however, has not strengthened our position in this respect. Clearly, this institution has no unique policy or philosophy regarding the importance or desirability of stable exchange rate regimes. I regret this. This should make us cautious in our policy advice, although it should not mean that we have to keep our hands off. The Fund's experience with exchange rate policies all over the world and a neutral position should guide our surveillance activities in this field.

On financial relations between the states of the former Soviet Union, I wonder whether some update of the already distributed papers would be required.

I welcome the proposal to have a Board discussion on the financial cost of operating the Fund and the related question of burden sharing. When the financial structure of the Fund was created decades ago, overdue financial obligations, precautionary balances, large-scale technical assistance, among other things, were not considered. The financial structure itself developed somewhat haphazardly. I have for some time urged the Board to consider the financial structure of this institution because it is, in my view, no longer adapted to the present functions of the institution. Also, the division of power and the division of financial burdens have become separated too much. These are reasons enough to discuss the situation and look at alternative approaches, and I am grateful to see that this issue is finally on the agenda.



Mr. Marino made the following statement:

As usual, we have before us a heavy work program. Country-related activities constitute the bulk of the program and will absorb a good deal of staff and Board time. Therefore, I hope we can continue with the progress achieved with the lead speaker system and that consideration can be given to the proposal voiced repeatedly by our chair and others to try to complete program reviews, when the situation warrants, on a lapse of time basis.

Since I am in broad agreement with the proposed work program, I will make only a few comments on different topics in their order of presentation in the Chairman's statement.

On the world economic outlook and systemic issues, for the industrial countries, it seems appropriate for the world economic outlook exercise to focus on labor market policies as an important component of structural policies, in view of the severe unemployment that prevails in several industrial countries. In addition, we consider it important to highlight the preconditions required for sustainability of low inflation. The Fund has to continuously raise the awareness of the international community that the battle against inflation is never over and that we have to strive to create a framework for long-term price stability. In this regard, certainly the trend toward greater independence of central banks seems encouraging. With respect to developing countries, we welcome the emphasis placed on trying to understand the disparities on growth performance among developing countries and groups of developing countries. In this regard, the impact of the international environment on their performance fits in well. I hope it includes the role of temporary shocks, especially to terms of trade, since recent literature suggests that they play a much larger role in explaining variance in growth rates than previously acknowledged.

Regarding the paper on the economic implications of unproductive expenditure, we see merit in having the Fiscal Affairs Department analyze this issue. Nevertheless, it should be seen in sufficiently broad terms. In view of the important privatization process that has taken place in many countries, it would be useful to take stock of the current trends between capital, current, and social expenditures in different countries and the economic implications of this change in the composition of public sector expenditure.

We concur with the orientation of the papers on the behavior of non-oil commodity prices, the international capital markets report, and the programmed major periodic review of trade policy issues, and certainly welcome the efforts of the Fund, including

those of the Chairman, to disseminate information on the benefits of free trade.

Regarding the paper on legal aspects of allocation and reallocation of SDRs to new participants, while these issues need to be formally discussed and settled, we hope that the substantive issue of a new allocation continues to be actively pursued.

We welcome the paper reviewing Fund technical assistance; this topic merits close evaluation. In view of the budgetary constraints facing the institution, we need to have in place a clear and transparent rationing mechanism. I agree with Mr. Peretz's remarks on this issue.

Regarding regional surveillance, we look forward to the paper on monetary policy options within the ERM and the papers on financial relations and trade policy reforms in the states of the former Soviet Union.

We consider the policies on the use of Fund resources and the design of policy advice to be one of the top priorities in the work of the institution. In this regard, we look forward to the paper on the review of design and experience under stand-by arrangements and extended arrangements. I am sure it will sharply focus on the lessons of experience and how we need to adapt our facilities and policy advice. In this connection, and in the spirit of fortifying and complementing our evaluation work, we believe that the proposed Evaluation Office would provide a useful input to this work. Therefore, we hope to see this come into existence in the near future.

We consider important the paper on quasi-fiscal deficits. In view of the inherent problems regarding the appropriate measurement of quasi-fiscal deficits, we hope that the paper includes a clear methodology for its measurement.

On Development Committee matters, it is important for the Board to be kept well informed of the deliberations of the working group on the future of the Committee.

On the Tenth General Review of Quotas, we look forward to the paper on the distribution of quotas in the Fund and the review of quota formulas.

With regard to financial matters, we particularly welcome the revisiting of the financial cost of operating the Fund and the question of burden sharing. These issues, while controversial, are worth keeping alive, as they go to the heart of the operation of the institution and it has been recognized that the current system is not the most equitable one.

On administrative and related matters, the agenda is certainly heavy, but all the issues listed deserve careful consideration. It will be particularly important for the Board to be kept well informed of the progress with Phase III, with papers that are transparent in terms of comparative cost, alternatives for housing the staff, and the methods of financing.

Mr. Lanciotti made the following statement:

I am in broad agreement with the proposed selection of topics for the Fund's work in the upcoming period. My authorities view the proposed work program as being in accord with their understanding of the Interim Committee's wishes and expectations. Therefore, I would like to emphasize only two major items in the proposed program to which my authorities attach particular interest.

The first item relates specifically to the analysis of the consistency of exchange rates with economic fundamentals, and here, I agree with Mr. Al-Jasser and Mr. Solheim. This is a core matter for my own country and at least two other members of my constituency in view of their strong commercial and financial integration within the EC. At the same time, this same subject takes on substantial relevance for the other members of the Fund as well, independent of each country's choice of exchange rate or trade regimes.

While important for any country, the issue of exchange rate misalignments becomes crucial in the particular context of the European Community. In a highly integrated area such as the EC, misaligned exchange rates can imply huge costs in terms of disrupted competitiveness and may often cause countries to become a financial charge on their neighbors. It is essential, therefore, to preserve the relative competitiveness between member countries. It would be extremely useful if the Fund's analytical work on exchange rates versus economic fundamentals could also address the problem of real exchange rate misalignments in the context of the preparation for a single currency in the EC.

The second item in the proposed work program I wish to comment on, and which my authorities strongly endorse, is the work on trade policy issues. There is indeed a need for thorough analysis of the role of regional integration and of the trade and trade-related issues emerging therefrom, particularly their possible implications for various groups of countries and for the Fund. These matters should be examined comprehensively in the context of the periodic review of trade policies.

There has been, in recent years, a significant increase in the number and size of country groupings leading to formal and

informal trading arrangements, with varying degrees of complexity. These developments pose a number of problems for policymakers facing the task of making concrete choices in the bilateral, regional, and global fora of trade negotiations. The emerging regional trends and practices also represent a challenge for international institutions, which need to fit regional arrangements into their conception and assessment of the global system, in order to stimulate the potentially positive interactions and to prevent potential conflicts.

I said earlier that I would comment on two points, but I hope you will allow me to make a brief digression on an issue directly related to those two points. I am referring to unemployment, a serious problem for most of our countries and one that in the European Community alone affects 20 million people. This calls for urgent policies to foster growth and enhance employment opportunities, in ways that would not jeopardize other medium-term objectives. Growth alone will not be enough, and growth "at any cost" could prove later to have been less than a viable option. A new approach is needed that would minimize the painful social consequences of the present situation, including recourse to more flexible instruments in the labor market--such as, for instance, job-sharing and part-time employment. A thorough and in-depth analysis of the problem and of its possible solutions could be usefully carried out by the staff. In view of the importance and complexity of the subject, it could also be dealt with in the context of a Board seminar, apart from the coverage that will be given to the subject by the world economic outlook exercise.

The Chairman observed that the staff's intentions with respect to the world economic outlook exercise coincided well with Mr. Lanciotti's suggestions. In addition, a world economic and monetary developments session had been scheduled two days prior to the world economic outlook discussion so that, at the latter discussion, the core issues could be explored even more deeply.

Mr. Fernando made the following statement:

I have no disagreement relating to any item set out in the proposed work program, which is not merely comprehensive but has a solid outreach well beyond the medium term. We shall comment, however, on a few selected aspects for the purpose of elaborating our view on the scope of the item, to seek certain clarifications, or to emphasize the importance we place on a particular subject. A final point concerns suggestions for scheduling.

In regard to world economic prospects, we would note several differences in the current business cycle compared with previous ones. The recession was not as deep to begin with, although the prolonged hesitancy in recovery is worrisome; different countries

are at different stages of the cycle; asset price deflation and balance sheet problems were severe for some countries but of little relevance for others; inventory corrections have played only a marginal role; and important parts of the developing world have shown much resilience in economic activity. What do these mean for the next stage of the business cycle? Can we expect the recovery to be sustained for longer periods than in the past? We hope that some analytical insights into these questions will be revealed in the world economic outlook exercises.

In the background documentation for the next world economic outlook discussion, I note management's intention to include a paper on the economic implications of unproductive expenditure. We need to be very cautious here. So-called unproductive expenditure can refer to military expenditures and budgetary subsidies for agriculture and industry. It is difficult for us to limit the list to these three items without also considering other household transfers for social security or even capital expenditure projects. In the case of some aid-receiving countries, even if capital expenditure can be substantially financed from external sources, they could still be unproductive, particularly in instances where capital expenditures set up claims on the recurrent budget in subsequent years. More specifically, the subject economic implications for unproductive expenditures is indeed a vast area. Discussing the implications of such expenditure would involve not just questions of budgetary finance, but also questions of its linkage to the real sector, employment, and social concerns. I recall that in the previous world economic outlook exercise, the background documentation included a note on the economic benefits of reducing military expenditures. As the title suggests, the analysis did not go into the question of making a judgment of whether a particular level of expenditures for a country is justified. It would have been impossible to make judgments on this, and rightly so. Instead, it simply took the available numbers, and for whatever reason assumed a reduction of the level of expenditure and its impact on other macroeconomic variables. I am not sure whether a similar approach is intended in the proposal for the larger subject of unproductive expenditures. Consequently, we see merit in discussing this first in an informal session, perhaps in a seminar, before making it part of world economic outlook documentation and its subsequent publication.

On the question of exchange rates and economic fundamentals, we assume that what is proposed is a methodology paper, and this is timely. It would provide the basis for Board guidance as to how this should be applied in our policy advice under our surveillance function.

On trade matters, we hope that the major review expected later in 1994 would focus on the rapid growth of intraregional trade within Asian countries as this development is closely related to the sharp increase in direct investment within this region as well as to the strong growth performance of this region in contrast to recession in much of the rest of the world.

On country-related activities, my only point relates to technical assistance from the Fund. We have noted the substantial increase in demand for technical assistance from the Fund. With a view to making sure that this scarce resource is put to optimum use, we would again emphasize that new requests for technical assistance should be evaluated taking into account the response of national authorities to recommendations of previous technical assistance missions.

On the design of Fund policy advice and experience with programs, we would place emphasis on an evaluation of the sustainability of economic and financial policies. Largely for reasons of early macroeconomic stabilization, in many instances, fiscal consolidation has been at the expense of needed infrastructure, maintenance expenditure on capital assets, human resource development, and poverty programs. It is true that many aspects of our design--for instance, price deregulation of agricultural commodities--are slanted in favor of the rural poor. We have endeavored to cast a social safety net. But it is also observed that expenditure cuts have fallen heaviest on the more articulated and organized urban poor. No doubt, in collaboration with the World Bank, attention has been given to alleviating the resultant hardships. It is time to evaluate actual experience to focus on this important issue. For economic policy advice to be fruitful, it should be sustainable and supported by a broad cross section of the population.

An insight into quasi-fiscal deficits is timely. The temptation to limit the coverage of this study to program countries is great, not least because of the easier availability of data. Application of conditionality to derive fiscal retrenchment can lead to the emergence or expansion of quasi-fiscal deficits. This phenomenon is also the breeding ground for banking problems. This feature is not confined to program countries but has much wider currency: state-controlled banks are not a monopoly of program countries. We therefore hope that the paper will cover a wide cross section of member countries. I do not see strong reasons to consider this matter along with the paper on the fiscal content of Fund-supported programs in the transition economies.

On administrative and related matters, my comments are limited to the Phase III option and long-term space requirement. In all previous discussions, many Directors were cautious in

assessing the long-term space requirement. We would need to go intensively into this question long before Board consideration of the Capital Budget in March 1994. We should carefully review the present and prospective staffing population, growth assumptions over the next ten years, the application of office space standards, design constraints, among other considerations. We understand that by February 1994, the design drawings for Phase III should be ready. But before this point, we must reach some consensus on whether and to what extent we need a Phase IV. As we approach the Fund's fiftieth anniversary, let us not have to defend our policy on housing.

As to scheduling, the heavy concentration of topics for January 1994 is striking: the working of quota formulas; the fiscal content of Fund-supported programs in transition economies; legal aspects of the SDR; quasi-fiscal deficits; the financial cost of Fund operations, burden sharing, and precautionary balances; and possibly, a discussion on long-term space needs and the economic implications of unproductive expenditures. In our view, each subject is important and this amount of crowding would deprive us of an in-depth consideration.

The following from among these topics deserve priority in our view: the legal aspects of the SDR; the financial cost of Fund operations and related issues; and long-term space needs. The other topics should follow at reasonable intervals. Also, in view of the importance of the discussions on the Administrative and Capital Budgets as well as staff compensation and the Fund's travel policy in April, we see merit in considering the Quadrennial Survey of Staff Benefits sometime after our Spring Meetings.

The Chairman commented that the more he reflected on the concentration of issues, the more he was intrigued by Mr. Posthumus's suggestion to review the work program at the beginning of January and perhaps again on July 1--namely, midway between Interim Committee meetings. That idea was certainly worth pursuing and could help to avoid the bunching of discussions on important issues.

Mr. Abbott made the following statement:

We are pleased that the spring World Economic Outlook will focus on the conditions needed to promote stronger growth. This clearly remains the pressing policy concern as indicated in repeated statements by developed and developing countries alike at the recent Annual Meetings and in a variety of other international forums. Growth remains particularly elusive in the industrial countries, so we look forward to a World Economic Outlook that examines closely the conditions that are inhibiting a resumption of activity rather than one that assumes recovery is always "just

around the corner." We need to be able to consider policies that will insure such an eventuality. The industrial countries are doing an excellent job in sustaining low inflation, but a policy balance needs to be achieved that will permit sustainable growth to coexist with low inflation. Similarly, encouraging convergence within the EMS is well and good, but if events over the past year are any indication, bids to strengthen the EMS are only as credible as the prospects for stronger growth and, particularly, better job creation. The most recent World Economic Outlook recognized the imperative of a stronger recovery that would be job generating, and we would hope to see this theme developed further.

As surveillance constitutes the main lever by which the Fund can influence industrial country policies, it is doubly important that its content be attentive to near-term needs and its forecasts provide a credible basis for its advice.

Persistent unemployment, particularly in Europe, but also a nagging legacy of the slow recovery in the United States and Canada, deserves special attention, so we are pleased to see that labor market policies will merit particular attention in the spring World Economic Outlook. Rigidities and policy distortions in this area have far-reaching implications for fiscal balances, inflationary expectations, the conduct of monetary policy, and high structural unemployment. Our consideration of unemployment should give attention to both the cyclical and the structural aspects of the problem.

The paper on the economic implications of unproductive expenditures is one which we will very much look forward to reading. The need for better prioritization of expenditures to support fiscal and development objectives is a paramount concern, especially in view of the heightened scrutiny to which aid flows are subject.

The June 1994 discussion of international capital markets anticipates a discussion of, among other things, access to international capital markets by developing countries and countries in transition. A look at this aspect of capital markets would be welcome. Last summer we reviewed experience with surges of capital inflows into developing countries. That review focused more on recipient country experience than on capital market aspects of such flows. My own view was that that review tended to overemphasize some of the complications capital inflows generated without giving due recognition to the benefits of capital inflows. In a well-functioning international financial system such flows should represent the sort of normalization and integration of countries into the international financial markets that are the mark of successful adjustment efforts. Another look from a



capital markets perspective should help us get a better feel for the sustainability of stronger flows to developing countries.

We would also appreciate a further look at derivatives, but perhaps with less of a predisposition to suspect this is an area that needs to be reined in.

The proposed paper on approaches to assessing the consistency of exchange rates with economic fundamentals makes me somewhat nervous. I am not sure where the staff intends to take this subject. I would hope it would not devolve into a rehash of mid-1980s debates about target zone calculations. If that sort of debate can be avoided, there are some pragmatic issues that could usefully be re-examined. A number of members have adopted exchange-rate-based adjustment policies and, even if we think the essential priority is to get the underlying macroeconomic policies right, we cannot avoid making judgments about whether the exchange relationships are consistent with the overall mix of policies. Much of the debate about ERM developments over the last couple of years have been confused by parties adopting selective definitions about what it means for rates to be consistent with the fundamentals. Some sorting out of these issues would be useful, even if its unlikely to lead to a meeting of the minds about the benefits of alternative regimes.

In this regard, I hope that there would be some stress on evaluating the fundamentals on a relative basis. Exchange rates necessarily involve at least two currencies. If exchange rates are to be consistent with the fundamentals, they have to be consistent not only with the fundamentals in the home country but also with the fundamentals in partner--or to be more concrete, in anchor--countries. There is more to the relative fundamentals than just purchasing power parity.

A reminder of the shortcomings of capital controls would also be timely, and we note this topic's coverage in a survey paper on the international exchange and payments system.

Trade policy issues and developments continue to merit attention, particularly in light of the shot-in-the-arm that a successful Uruguay Round would give to industrial country growth prospects as well as to adjustment efforts under way in many transition and developing economies. This is an area where more, not less work, is warranted in view of the protectionist pressures that sluggish growth tends to foster. I hope that the Uruguay Round discussion does not turn out to be one of those "postmortems" that Mr. Shaalan wanted.

If SDR allocation proposals were boxers, they would be punch-drunk by now. I am sympathetic to Mr. Fukui's observation that

this may not be an urgent topic, in view of all the staff and Board time that has been devoted to it over the last year. Nevertheless, some unanswered questions do remain involving possible measures to address the equity problem--namely, that certain members have not participated in previous SDR allocations. In particular, we look forward to a fuller exploration of the legal aspects of a cancellation and new allocation scheme.

With regard to the section on country-related activities, we would note the ongoing concern of this chair on the need to ensure that Fund reviews pay particular attention to the international and systemic ramifications of national and regional policies. This is one of the Fund's missions, but it does not always appear to receive the priority it should. This was an issue that troubled us about last summer's consultation discussion on Japan. The recent discussion on Germany was more effective in bringing out the international dimensions of domestic policies. I would hope that we would continue to carry over this dimension into our discussion of countries that have a particularly large international or regional importance.

Fund surveillance activities have been well-served by efforts to strengthen their regional focus. In this regard, the paper on monetary policy options within the ERM is topical. The papers that have been prepared on financial and trade policy issues among the states of the former Soviet Union are useful, and we look forward to early discussion of the issues raised. On this, I would associate myself with Mr. Kaeser in his call for an early discussion and would appreciate an update prior to this discussion.

Where issues of particular interest are not readily identified in advance but become apparent during the course of Board discussion or, at times, through discussions in other forums, we would encourage the staff to respond as appropriate with short memoranda and papers. For example, recent staff follow-up to points on German monetary policy raised in the Board as well as by senior officials were a timely and valuable reaction to Board discussions and some views expressed by German authorities.

Strengthened surveillance places obvious demands on the staff and the Board. Like other Directors, I found the enumeration of likely country reviews somewhat forbidding. Managing the Board schedule to smooth out the heavy work load will become doubly important and require a good deal of skill and attention. Some bunching of agenda items may be inevitable, but a firm hand will be needed to see that this is kept to the minimum.

In view of the demands on Board and staff time, we should probably not plan to linger too long on work relating to the Tenth

General Review of Quotas. As recent staff papers have highlighted, Fund liquidity is at record heights and is expected to remain at historically high levels into the foreseeable future--an eventuality made all the more likely by the tendency of actual outcomes on liquidity to exceed forecasts. Clearly, a review will take place, but we would hope to see a sense of realism influence the time spent on this topic. The overdue promised review of formulas for calculating quotas ought to be taken up soon.

Establishment of an ESAF successor looms large on the list of Board actions. Given the press of the end-November deadline for the current ESAF's commitment period, we wonder what sort of timetable is envisaged over the next few weeks regarding the distribution of staff papers in preparation for a Board discussion on a successor facility.

I agree with others in supporting a review of the design and experience with stand-by arrangements that goes beyond the regular assessment of conditionality. This is the sort of review we had anticipated might be usefully addressed by an evaluation unit. I am glad we will again have an opportunity to discuss the establishment of such a unit.

As to the Fund's role in debt and debt-service reduction, we look forward to the staff paper on modifying the guidelines pertaining to the segmentation on the use of set-aside and augmentation resources.

We are pleased about the anticipated circulation of a paper presenting factual information on staff work on environmental issues. Broader distribution of this paper could well deserve consideration in order to offset certain popular misperceptions that we are indifferent to this dimension of our work. There is a lack of Fund-originated information on how this institution can most sensibly address concerns relating to the environment, and this gap ought to be filled. A work plan for this unit's activities over the coming year would also be useful.

We look forward to the discussion of the financial cost of operating the Fund and the question of burden sharing. In view of the difficulty of achieving a consensus on the current burden-sharing arrangements we do not anticipate a reopening of that issue. Nevertheless, burden sharing colors many positions taken in the Board, and it is useful to take a periodic look at how the system is working and what, if any alternatives, are potentially available. Attention to the question of precautionary balances and the need to explore the establishment of a more forward-looking and systematic method for arriving at reserve targets, as the staff suggests, is entirely warranted.

Good progress continues to be made in implementing the strengthened arrears strategy. As a result of arrears-clearing exercises over the past year, outstanding arrears have dropped by some SDR 600 million since end-1992. Continued vigilance will be necessary to maintain a downward momentum in arrears levels. Regarding individual cases, the Chairman has pointed out the need to consider next steps on Sudan, which continues to underperform and accumulate new arrears. We would also note that the situation in Zaïre does not appear to have improved, and that Board patience is likely to wear thin unless remedial steps are taken in the not too distant future.

It is hard to overemphasize the need for the Fund to maintain sound control over its administrative and capital expenses. This is a worthy goal as a matter of course, but it is doubly important in the current climate. Budget restraint and sacrifice in many countries have heightened sensitivities to perceived and real excesses in spending at international institutions. The Fund is not immune to such scrutiny, nor should it be. Fund travel policy has elicited a number of "raised eyebrows," for example, owing to the amount of first class travel permitted--a problem exacerbated by unfavorable comparisons to World Bank efforts, which have gone further in reining in such spending. In addition, we can be assured that Phase III will be carefully watched. As was made clear at our informal meeting earlier this week, a number of concerns already exist and the Board will need to stay actively engaged as the building program proceeds.

The Chairman, commenting on work on the ESAF successor, said that every effort would be made to respect the deadline of November 30. On Phase III, he was well aware of Directors' hesitations and concerns about potential perception problems. While the easiest solution might be to continue to lease space, good management required a close look at all the problems of housing staff, not only those relating to public perception. He looked to Directors for their support in the matter.

Mr. Al-Jasser remarked that while he had emphasized the risky side of the derivatives market, he had not intended to underestimate the positive side. The latter aspect had, however, been discussed in the previous staff paper. For that reason, he would like to see more emphasis placed on the prudential side and the risks that were entailed.

Mrs. Wagenhoefer made the following statement:

While generally supporting the Chairman's views concerning our work program for the coming months, I would like to make a number of short remarks.

I see from the timetable provided to Directors that there will be an accumulation of country items between February and

April 1994. I wonder, in this context, whether in the future it would not be both advisable and possible to spread the Board discussions of country items more evenly over the six-month period under review.

Concerning policy items, I would point out that we must get our priorities right in view of our heavy work load. This is one reason why my authorities are not entirely sure whether such priority should be given to approaches to assessing the consistency of exchange rates with economic fundamentals. Another reason for questioning the priority given to this item is the well-known difficulty of determining an equilibrium exchange rate--such determination is difficult and often controversial in theory; it is even more difficult, if not impossible, in practice. We also wonder what conclusions one should draw if the actual exchange rate deviates from a calculated or roughly estimated equilibrium exchange rate.

I welcome the fact that the staff will prepare a paper on the role of the Fund in promoting a sound international exchange and payments system. As we deal with a variety of other issues in our daily work, it is indeed very important that we discuss some of the central tasks of the Fund every now and then.

On trade issues, I attach great importance to Directors being kept informed about the state of affairs in the Uruguay Round discussions. Let us hope that Directors will soon be in a position to assess the successful outcome of the Uruguay Round, including its implications for the Fund. As to the comprehensive trade paper and the major review of trade policy issues and related matters proposed in the work program, I wonder whether such an undertaking on the part of the Fund is not overambitious given the fact that other international institutions are constantly working in this field.

I also welcome the envisaged strengthening of the regional focus of Fund surveillance. The Fund should not only deal with regional institutions--for instance, the franc zone--in this context, but also with interdependencies between members and nonmembers of regional institutions. It may also be helpful to compare the development of members and nonmembers of regional institutions, as such a comparison may contribute to elucidating the substantial disparities in growth among groups of countries. Concerning the envisaged contacts between the IMF and the European Commission, I would once again underscore that responsibilities for fiscal, monetary, and exchange rate policies still rest with the EC-member states and that the staff should respect this allocation of responsibilities in its contacts with the European Commission.

The work on the Tenth General Review of Quotas should start as soon as possible, because experience shows that quota reviews are extremely time-consuming. Although the Fund's liquidity position is comfortable at the moment, our discussion on access limits last Wednesday underlined that there are a number of risks and imponderables that could lead to a rapid deterioration in Fund liquidity. I note, in this context, that Fund credit to new Fund members is expected to increase considerably in the second half of this decade. Therefore, a further general quota increase could become necessary.

Mr. Sirat made the following statement:

I am in general agreement with the content and scope of the proposed work program.

I will concentrate my comments on systemic issues because the Fund seems to be the most appropriate institution to assess and discuss some of the main economic topics or concerns of today which are, indeed, systemic issues.

On the world economic outlook, I can certainly agree with the main topics considered for discussion, particularly labor market policies. Moreover, while I certainly support the idea that the Fund should fully exercise its surveillance role on the EMS members and encourage their convergence efforts, it seems to me that we should not misinterpret the nature of their present difficulties. As far as the core countries are concerned--namely, those that have experienced in the past a good record of low inflation, although with different challenges and profiles--the relevant question may not be so much that of policy inconsistencies or of internal divergence, which have decreased since 1990, but that of a collective divergence vis-à-vis the common requirements of sound fiscal policy. This subject was clearly addressed in our last World Economic Outlook and requires continuous emphasis.

As an aside on European issues, let me mention that my authorities fully share Mrs. Wagenhoefer's views regarding upcoming discussions between the staff and the European Commission.

I do not think that one should focus too much on some hypothetical European specificity in the present recession, which has been worldwide, as exemplified for instance by the current similar stagnation of the Japanese economy. The occurrence, magnitude, and duration of the present recession have not been foreseen. This is not new: we had not foreseen the strong growth of the late-1980s either. In this context, it would be useful if

the World Economic Outlook could give us some understanding of the unexpected aspects of this recession.

Besides considerations on the ongoing sluggishness, attention could be devoted to a reassessment of potential output growth in industrial countries in order to obtain a more precise view of the cyclical component of the current slack and its eventual structural features.

Another noteworthy aspect is the fact that the U.S. downturn had begun well before those of continental Europe and Japan. The U.S. economy seems now to be moving toward a steady and sustainable path of growth. Is this a leading indicator of growth for other countries? If not, why?

Regarding medium-term growth prospects, some interesting studies have been recently made on growth in a given country, including an historical analysis of the remarkable growth registered by a number of developing countries, especially in Asia, but also in Latin America. But I think that a reassessment of the economic interdependence of the main regions of the world through trade and capital flows would be, at this point, very fruitful. Indeed, I think that no institution is better able to consider, not only the prospects for growth in every country or region, as it is already done, but also the possible interactions between growth trends in different regions.

Regarding the background documentation, I welcome the possibility of discussing a paper on the economic implications of unproductive expenditures. In that connection, I would appreciate it if the staff could also prepare in the future a more general paper on the possible long-term impact on growth prospects of capital expenditure cuts currently being implemented in a large number of countries. This point might be linked with the upcoming paper on the experience with stand-by and extended arrangements.

This chair looks forward to discussing a staff paper on approaches to assessing the consistency of exchange rates with economic fundamentals. Surveillance over exchange rate developments in all member countries is a primary mission of this institution, and this paper could be extremely helpful in the implementation of this mission. Naturally, given the global nature of our surveillance work, such a paper should, in our view, consider a wide variety of cases, going beyond OECD countries and including new major actors in trade developments.

It might be extremely helpful as well to conduct an assessment of the long-term evolution of exchange rates between the United States, the European Community, and Japan. After the strong appreciation of the yen, one may wonder whether we are not

at the threshold of a new period of stability within a system of limited floating. Such stability seems to be forecast by the markets through the convergence of long-term interest rates. Such a development would be of great importance and would merit, I believe, detailed study by the Fund.

This chair is also looking forward to a Board discussion on the behavior of non-oil commodity prices, many of which have suffered from a significant and lasting fall. This subject is clearly of key importance for a wide number of countries, in particular in Africa. I hope the study will tackle both cyclical and structural aspects of the existing trends and will air some suggestions regarding appropriate market organizations and development policy.

The topics contemplated for the next review of international capital markets seem interesting, particularly those related to short-term capital movements and access to international capital markets by developing countries.

Other topics that could be of interest include the developments in emerging markets and the timing and geographical structure of international capital flows. On emerging markets, which have been much talked about recently, a study of the trend and volatility of asset prices, and their link to fundamentals, could be of great value. On the timing and geographical structure of international capital flows, one may ask whether countries that have greatly benefited from short-term capital inflows are, so to speak, "graduating" to long-term inflows and whether there are trends in the diversification of flows by origin and destination.

This last item might have some bearing upon the question of an SDR allocation, which will be reviewed at the next Interim Committee meeting, and it might therefore be more appropriate to schedule it for Board discussion prior to that meeting.

On the subject of our SDR allocation, let me stress that I do not think that the Board should only consider the allocation of SDRs to "new participants." Indeed, our last discussion at the Board before the Annual Meetings showed that a large number of Directors were of the view that an allocation was warranted. The matter was probably not mature enough for a decision during the Annual Meetings. This means that we need to return to it, in all its aspects.

Similarly, this chair certainly welcomes the possibility of beginning discussion on the Tenth Review of Quotas.

On trade issues, this chair naturally welcomes the staff's intention to report to the Board on the progress and conclusion of



the Uruguay Round, in view of the importance of the subject. More generally, regarding the foreseen comprehensive trade paper, I welcome the intentions to focus on emerging trade issues and, in particular, trade and employment issues. One important aspect is to provide a detailed assessment of the effective openness of the various trading regions, based on statistical ratios and trends. The issues of competition policy and market access are in need of some fundamental analysis. We also need to address clearly the widespread and worrisome fear that international trade has, despite a general positive impact, adverse effects on the wages of the less-trained population in industrial countries.

Mr. Dlamini made the following statement:

It is not unexpected that the work load of the Board would remain heavy in the coming year. It reflects the Fund's increased involvement in the adjustment effort of member countries and the effort to strengthen surveillance over developments in the global economy. Against this background, I can endorse the work program that the Chairman has outlined. Therefore, my remarks will be confined to a few specific points.

On the world economic outlook, we agree that we would need to focus more thoroughly on the issue of job creation necessary for building consumer confidence, which is considered to be essential to growth recovery in many industrial countries. For the developing countries, the role of external financing, which is highlighted for economies in transition, should also be analyzed in the context of the structural adjustment process, especially in low-income countries. Also, the discussion on developing countries should reflect, as much as possible, the distinction between groups of countries, considering the wide disparities among these countries and the consequent differentiation of their economic problems.

On the world economic and market developments sessions, I wonder whether some light could be shed on the usefulness of these exercises in terms of the impact of attendant policy measures of industrial countries on developing economies. That should help to form a view on the frequency with which the papers prepared on world economic and market developments are discussed in the Board.

The paper on the behavior of non-oil commodity prices is important. It should provide some insight into the constraints on the adjustment and restructuring efforts in low-income countries. The information provided could also form the background for a discussion on the role of external concessional financing in developing countries.

On the issue of SDRs, I think that it is useful for the Executive Board to continue its work on an allocation. I look forward to a comprehensive analysis, rather than one limited to members that have not participated in previous allocations.

With regard to the ESAF successor, I hope that every effort will be made to have the necessary documentation and financial and operational matters brought to the Executive Board before the end of November.

I agree that the Board should begin an early discussion on matters relating to the Tenth Review of Quotas.

Mr. Mozhin made the following statement:

As I am in broad agreement with the work program proposed by the management, I will limit my comments to several observations.

On the world economic outlook, I very much welcome the intention to devote particular attention, within the framework of the world economic outlook discussion, to labor market policies. Perhaps, in view of the importance of this issue, it would be appropriate to consider the possibility of having a special paper and a special discussion, say, in seminar form. In that respect, I support the proposal made by Mr. Lanciotti. Let me also repeat the proposal made by this chair on a number of occasions, namely, that every time there is an Article IV consultation with an industrial country, the staff paper should contain a special section on labor market policies. Our feeling is that, unless the Board members are sufficiently informed about developments in this area, our discussion of the prospects and policies of these countries will be somewhat out of context.

With respect to the issue of SDR allocations, I welcome the quick response of the management to the request made by the Interim Committee to explore the legal aspects of the allocation and reallocation of SDRs. I look forward to having a Board discussion on this subject in January, as proposed by the management. I do not think that it would be reasonable to postpone consideration of this issue, especially since the idea of equity in SDR allocations among the membership of the Fund gained substantial support in the Interim Committee.

The issue of financial relations among the states of the former Soviet Union is an urgent one. At the moment there is much confusion surrounding the so-called new ruble area initiative, mainly because there is a fundamental lack of understanding of what is really involved and the conditions necessary for a single currency area to function properly. Therefore, this is clearly an instance when timely advice from the Fund could influence serious

policy decisions. For that reason, I would strongly urge the Secretary to avoid any further postponement of the Board discussion on this issue. I understand that there are some difficulties related to the problem of reconciliation of travel plans of five Executive Directors who are most interested in this subject. However, this is really an urgent subject, and any postponement would be regrettable.

As to financial matters, we appreciate and support management's initiative in preparing a review of the existing system of burden sharing. This chair associates itself with those Directors who have in the past expressed concern about the adequacy of the current mechanism. Early release of a paper setting out alternative mechanisms is most desirable and would be helpful for a productive Board discussion in January.

We appreciate the comprehensiveness of the proposed discussions on administrative and related matters. In particular, we would like to welcome the discussion on the research activities of the Fund, the Fund's technical assistance, and the role of resident representatives. It seems that strategies in research activities and in technical assistance, which are obviously linked, need further consideration, especially as far as the countries in transition are concerned. We do not exclude the idea that new strategic tasks could be put forward, thus giving rise to some shifts in the budget; therefore, it might be worth discussing these issues well before the budget for FY 1994 is put together.

The Chairman said that he shared Mr. Mozhin's view on the crucial importance of developments in financial relations among the states of the former Soviet Union. The views of management on the ruble zone initiative were well known to the authorities, and a review of developments would be of great relevance. Such a discussion was under consideration for December 1; he hoped that timing would be agreeable to the Board.

Mr. Mozhin remarked that December 1 was acceptable to his chair. He hoped that there would be no further postponement of that discussion.

Mr. Prader made the following statement:

As this chair is in broad agreement with the Chairman's outline of the work program, I will also limit myself to a few observations.

We find merit in the idea of reviewing in the framework of the world economic outlook the transition countries' transformation process. Of course, the members of our constituency are equally interested in a seminar on fiscal contents of Fund-supported adjustment programs in economies in transition and in the seminar on financial relations and trade policy reform in the

states of the former Soviet Union. However, because of the time needed to assess the changes presently taking place in the exchange rate policies of those countries, and in particular, as Kazakhstan and Uzbekistan have just announced their intention of leaving the ruble zone and of introducing their own currencies, we would welcome a discussion of these issues not before December 1.

On exchange rate issues, we also think that the Fund could make an important contribution to the current debate on the relationship between economic policies and the exchange markets through a seminar on assessing the consistency of exchange rates with economic fundamentals.

With respect to the SDR, we support the discussion of the proposed papers and agree completely with Mr. Sirat. I take note of Mr. Al-Jasser's fear that possibly the proposed discussion is a detour, but perhaps it will function according to the economic concept of productive detours.

On the Tenth General Review of quotas, I agree with Mrs. Wagenhoefer and others; we think we should begin the discussion as planned in January.

With respect to financial matters, for the same reasons as mentioned by Mr. Fukui, we see no particular urgency in discussing the financial cost of operating the Fund and the question of burden sharing.

As to the equally divisive paper on the level of the Fund's precautionary balances, we hope the debate will take account of the consensus and the progress achieved in earlier discussions on the Fund's specific status with respect to reserving. In this context, perhaps the Board's efforts at establishing an institutional memory, as announced during a previous work program discussion, could be helpful in guiding the Board's deliberations on this matter.

Like others, I would welcome a review of the Fund's technical assistance, including the problem encountered with other agencies involved in similar activities.

On the Evaluation Unit, if more work should be undertaken on this issue, if anything, we would like to see it limited to a study of the Chairman's inspector-general approach.

Mr. Mozhin said that he welcomed the decisions of Kazakhstan and Uzbekistan regarding the ruble area but doubted that they were final. He understood that negotiations on the matter were still under way. That underlined the urgency of the Board's discussion on December 1.

Mr. Prader stated that Mr. Mozhin's doubts that the decisions were final underlined his own view that it would be difficult to take a position on the matters for discussion on December 1 at the current juncture.

Mr. Mozhin remarked that he was not calling for the Board to take a position. Rather, he believed that it was important to convey a clear message to the relevant authorities about what was at stake and what was involved, in view of the significant lack of understanding of the matters at hand.

The Chairman said that supported Mr. Mozhin's last comments. There were a number of basic messages that could, with the unanimous endorsement of the Board, be usefully conveyed in a simple way to the authorities involved.

Mr. Kafka made the following statement:

We are in general agreement with the Managing Director's work program.

As regards the world economic outlook and systemic issues, we welcome particularly the plan to issue a comprehensive trade paper and the proposed paper on approaches to assessing the consistency of exchange rates with economic fundamentals. But this latter paper--as Mr. Smee and Mr. Zoccali have suggested--raises some questions. Specifically, what do we mean by fundamentals? Is it merely that exchange rates should be sustainable? Is that a sufficient criterion for accepting an exchange rate? Should the exchange rate also help to achieve other objectives, for example, contribute to increased saving or avoid being prejudicial to the volume of saving, in cases where the exchange rate can perform such a task?

I welcome the proposed discussion on the SDR, but I do not think that this is merely a question of equity or reallocation: it is also a question of allocation, for which there is insufficient but strong support. Similarly, on the Tenth Review, we must not treat this cavalierly. It merits careful consideration.

Among country-related issues, we welcome the proposed paper on monetary policy options within the ERM countries. But a paper on monetary policy options should probably have a wider focus. Other countries are facing difficult problems in this area, for example, relating to capital flows. We are not sure that we are giving the best possible advice to our member countries, in that we seem to be overly impressed by the long-term ineffectiveness of measures other than fiscal ones in dealing with problems created by capital flows.

On other matters, I fully agree with those who have spoken before me on the unproductivity of considering unproductive expenditure. I think we should study the question of the Evaluation Unit carefully. We see that a review of the activities of the Development Committee has been proposed. I am not saying that we should have a similar review on the Interim Committee, but perhaps we should devote some time to discussing, inter alia, the functions of the Interim Committee. I think that we have to devote a good deal of time to budget questions, including a possible budget committee, and to the question of burden sharing. On the ESAF successor, I hope that the forthcoming discussion will be more successful than it looks to be at the moment.

The Secretary observed that Directors had broadly endorsed the outline for the spring 1994 World Economic Outlook. The staff had taken note of the numerous comments and suggestions Directors had made in that regard and, in particular, their comments on and endorsement of a comprehensive examination of labor market policies, not only in the context of the world economic outlook exercise but perhaps even as a separate subject for discussion in a seminar format. Similarly, Directors had broadly endorsed the view that the spring World Economic Outlook should discuss the impact of the international environment on the performance of developing countries and the reasons for disparities in growth among groups of countries. Mr. Shaalan, supported by Mr. Fukui, had suggested that at some appropriate future time, there should be a postmortem on policy lessons to be drawn from the prolonged recession in industrial countries.

Some speakers had observed that the economic implications of unproductive expenditure went beyond the content of the envisaged staff paper, the Secretary continued. Mr. Shaalan had suggested that the staff examine domestic and international implications, while Mr. Fernando had emphasized the broad area of unproductive expenditures. Mr. Sirat, looking at the other side of the coin, had invited the staff to examine the impact on long-term growth of repeated cuts in public investment expenditure. The proposed staff paper would not cover all those areas, but it could be viewed as the first bite into a bigger cookie. The paper could be put forward for seminar discussion if Directors so wished.

There was broad support for the continuation of world economic and monetary developments discussions as suggested in the work program, the Secretary stated. The discussion that morning had again underlined the Board's desire to devote some time to those sessions, and Mr. Peretz had emphasized the importance of confidentiality so that speakers could contribute candidly to the discussion of sensitive issues.

A number of comments had been made on the proposed paper on approaches to assessing the consistency of exchange rates with economic fundamentals, the Secretary observed. He would not repeat them, except to note the suggestion of Mr. Sirat that the staff might wish to give special attention to the analytical importance of recent exchange rate developments between

the dollar, the yen and the European currencies. While not all Directors agreed on the importance of going ahead with the study as proposed by the staff, all agreed that it was part of the Fund's primary mandate.

While there was support for the proposed study on issues in the international exchange and payments system, there was also a question on the extent to which that was part of the Fund's task, the Secretary recalled. The study, which would draw importantly on the inventory of members' systems as provided in the Annual Report on Exchange Arrangements and Exchange Restrictions, was very much within the jurisdiction of the Fund. Directors would recall that, in the past, the Annual Report had included an introductory chapter in which the staff drew together common themes emerging from changes in members' systems over the period covered by the report. That introductory chapter had been discontinued; in its place, the staff periodically pulled together a comprehensive review of recent developments and assessed their institutional and jurisdictional implications for the Fund.

As to the study on the behavior of non-oil commodity prices, there had been several suggestions, such as including oil and broadening the study to include all aspects of the terms of trade, the Secretary commented. At the current stage, the staff would wish to keep to the subject proposed, namely, the behavior of non-oil commodity prices. Again, when that study came to the Board for discussion, it would be for Directors to decide whether it should be followed up with further work.

There had been broad support for the proposed focus of the international capital markets study, the Secretary continued. In that context, the staff had taken note of the comments made by Mr. Shaalan and Mr. Al-Jasser on derivatives markets and prudential regulation.

It was expected that trade matters would be reviewed in three parts, the Secretary observed. The first part consisted of the staff paper on the progress and conclusion of the Uruguay Round. The second part, an evaluation of the results of the Round, would be taken up in the April 1994 world economic outlook paper. The third part was the comprehensive trade paper, which was scheduled for discussion later in the year so as to allow the staff sufficient time to discuss with officials in members' capitals their assessment of the impact of the conclusion of the Uruguay Round on their individual countries.

As to issues related to SDR allocations, it was generally agreed that the Chairman's statement reflected the work that the Interim Committee had requested on the matter, the Secretary stated. In that context, some Directors had underlined that the Board should not forget the basic issues of international liquidity and SDR allocations. Moreover, Mr. Posthumus had requested that the staff paper on the pattern of holdings and use of SDRs be scheduled for Board discussion.

Directors had broadly endorsed the suggestions for further strengthening the regional focus of Fund surveillance, the Secretary continued. In

that context, they had stressed that the regional focus of Fund surveillance should include, but not be limited to, various groups of member countries with regional institutions, and in that context, developments in southern Africa and among the republics of former Yugoslavia had been mentioned in particular. Directors looked forward to receiving the paper on monetary policy options within the ERM. Mr. Smee had suggested broadening its scope to include a substantive discussion of Stage II of the ERM, while Mr. Kaeser believed that it would be interesting to analyze Switzerland as a case study of a non-ERM country with a flexible exchange rate regime. As to financial relations and trade policy reform in the states of the former Soviet Union, it was hoped that the seminar discussion of that issue could be held on December 1. In view of the rapidly changing developments in that area, the staff proposed to prepare an update on the subject for circulation to Directors approximately one week prior to Board consideration.

On policies on the use of Fund resources and design of policy advice, it had been agreed to hold an informal meeting on the ESAF successor in coming days, the Secretary stated. Directors looked forward to the forthcoming review of design and experience under stand-by arrangements and extended arrangements, and welcomed in particular the fact that the paper would go beyond a review of conditionality and would focus on experience with analytical aspects of program design. Mr. Peretz had suggested that the paper also review enhanced surveillance and its role. The staff would have to examine the feasibility of that suggestion in the context of the proposed paper or whether the matter would have to be addressed in a different fashion.

The paper on the fiscal content of Fund-supported adjustment programs in economies in transition would review programs with those economies that lacked well-developed fiscal institutions as well as efficient tax administration and budget mechanisms, the Secretary explained. Such institutional weaknesses had led to problems in the implementation of programs that were unique to that group of countries. The paper would also address issues stemming from the large size of the public sector in the former centrally-planned economies and questions of definition in that area. The paper would draw lessons from the experience to date with a view to informing the design and implementation of future programs.

Directors also looked forward to receiving the paper on Fund policy advice and the environment, the Secretary stated.

The staff considered that on the basis of the experience gained so far, a review of the systemic transformation facility was not fully warranted at the present time, the Secretary continued. The possibility of a review, however, had not been excluded; rather, the staff was taking a pragmatic approach to the matter.

On the Tenth General Review of Quotas, with varying degrees of enthusiasm or lack thereof, it was agreed to proceed as proposed, the Secretary observed.



On financial matters, a number of Directors had emphasized the urgency that they attached to the study of the Fund's financial structure, including burden sharing and the level of the Fund's precautionary balances, the Secretary remarked. That was a complex matter and, as several Directors had emphasized, might require several discussions and additional staff papers.

With regard to the work program on country issues and matters of scheduling, several speakers had referred to the understanding reached at the Directors' last retreat that not all Article IV consultation reports had to be scheduled for Board discussion, the Secretary recalled. It should be noted that in the course of the past work program period, Directors had had two or three opportunities to discuss scheduling matters in general, but none of those exchanges of views had led to an agreement to conclude an Article IV consultation without Board discussion. In his view, that was not surprising. With the recent return to greater emphasis on surveillance and to the regular consultation cycle, it was likely that the Board would wish to go through a full cycle before it decided to conclude certain Article IV consultations without Board discussion. It had also been suggested at the Directors' retreat that certain program reviews could be dealt with on a lapse of time basis. The Board had adopted that approach in two recent cases, Estonia and Argentina. No doubt the Board would wish to review that issue as it gained more experience.

As Mr. Fernando had noted, a large number of policy papers were provisionally scheduled for Board consideration in January, the Secretary continued. He would propose that the staff review the schedule for the preparation and Board discussion of the various policy papers in the light of Directors' comments and would prepare a memorandum to Directors proposing a revised provisional schedule.

Directors had referred to the bunching of items in the Board schedule and, in that context, Mr. Posthumus had suggested that the Board re-examine the timing of the work program exercise, the Secretary remarked. He would welcome such a review. At the same time, it had to be recognized that there was a seasonality in staff missions to member countries: there had always been, and promised to remain, fewer missions in July, August, and September. Consequently, fewer papers on country matters came to the Executive Board in November.

On administrative and related matters, a number of observations had been made, primarily in the context of the Chairman's luncheon discussion with Executive Directors the previous day, the Secretary observed. He had nothing to add to that discussion at the present time.

Mr. Peretz said that he continued to believe that it would be useful to set aside some Board time regularly to discuss scheduling matters.

The Chairman said that he shared Directors' concerns about the heavy schedule of country-related matters in the coming months. He also accepted the need to complete a full cycle of Article IV consultations before

reviewing the Board's work methods for dealing with the agenda. Nevertheless, even with the progress made with the lead speaker system, more needed to be done to streamline the Board's work load. In the near future, he would meet informally with Directors to explore how the Board might reorganize its work so as to concentrate more of its efforts on core responsibilities and less on routine work.

Mr. Al-Jasser said that he agreed on the need for an informal discussion on how to better manage the Board's heavy load. In the recent past, he had experimented with refraining from speaking on some issues and had found that to be useful. He would urge others to experiment with that approach.

As to the staff paper on non-oil commodity prices, he had again offered his justification for making the paper into a terms of trade paper, Mr. Al-Jasser commented. The staff still felt strongly about restricting the paper's scope to non-oil commodity prices. He had no problem with that, but he would appreciate being informed, on a bilateral basis, of the staff's justification for its approach.

The Executive Directors concluded for the time being their consideration of the work program.

APPROVED: May 5, 1994

LEO VAN HOUTVEN  
Secretary