

0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/152

12:40 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

J. A. Solheim
J. Prader
N. Tabata
L. E. N. Fernando
K.-T. Hettrakul

A. V. Mozhin

O. Kabbaj
B. S. Dlamini
J. Dorrington

N. Toé, Temporary
E. Wagenhoefer

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

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Also Present

Administration Department: P. K. Craig. European I Department: M. Russo, Director. European II Department: J. Odling-Smee, Director. External Relations Department: S. J. Anjaria, Director; G. Hacche. IMF Institute: P. B. de Fontenay, Director. Legal Department: R. H. Munzberg, Deputy General Counsel. Middle Eastern Department: M. D. Knight. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; A. K. McGuirk. Research Department: M. Mussa, Economic Counsellor and Director; P. B. Clark, R. A. Feldman, F. Larsen. Secretary's Department: R. S. Franklin, E. Friis, B. R. Hughes, A. Jbili, A. Leipold, A. Mountford. Statistics Department: J. B. McLenaghan, Director. 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; H. Wiesner, L. Wolfe, J. Prust. Advisors to Executive Directors: G. M. Blome, A. Chang Fong, R. F. Cippa, S. K. Fayyad, T. K. Gaspard, G. Y. Glazkov, J. Jamnik, J. M. Jones, M. F. Melhem, M. J. Mojarrad. Assistants to Executive Directors: H. M. Al-Atrash, D. Desruelle, R. Ferrillo, A. Galicia, C. Gaseltine, G. H. Huisman, S. Ishida, T. Kanada, K. J. Langdon, G. J. Matthews, F. Moss, R. K. W. Powell, N. Prasad, M. Ryan, A. Sighvatsson, F. A. Sorokos, J. B. Wire, Wu H.

1. WORK PROGRAM

The Executive Directors considered the following statement by the Managing Director on the work program 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):

In listening to our Governors in the Interim and Development Committees' sessions and during the Annual Meetings, we were all struck by the historic convergence of countries toward more open government and market-based economic principles. But we also sensed widespread unease: policymakers from all over the world are struggling to find solutions to problems that are increasingly global and interrelated at a time of profound and unprecedented change. At the same time, we heard Governors reiterate a principle that should guide them in their decision making and this Board as we set our work program: for all countries--industrial, developing, and those in transition--the road to confidence and stability within countries and across regions begins at home, with solid, outward-looking macroeconomic policies and a broad-ranging set of structural reforms. This principle should guide us in our work with individual members, as we seek stronger growth and employment in industrial countries, sustained and more broadly based growth in the developing world, and further progress on the move to market-based economies in the transition countries.

In this statement, I will, as usual, cover in detail the work program for the period up to the spring 1994 ministerial meetings, and provide indications of other work to be undertaken or followed up in the period up to the 1994 Annual Meetings.

1. World economic outlook and systemic issues

The spring 1994 world economic outlook, which will be on the Board agenda for April 6 and 8, 1994, will review progress toward establishing conditions compatible with stronger sustainable growth in the global economy, consistent with the Interim Committee's deliberations and its April 1993 Declaration on a Cooperative Growth Strategy. For the industrial countries, it will appraise the prospects for near-term economic recovery and medium-term fiscal consolidation and will devote particular attention to labor market policies, the sustainability of low inflation, and to efforts to encourage convergence and improved performance within the European Monetary System (EMS). For the developing countries, the world economic outlook will discuss the impact of the international environment on their performance and will examine the reasons for the substantial disparities in growth among groups of countries. For the economies in transition, the world economic outlook will review the process of transformation

and analyze the role of stabilization and structural policies as well as the part played by external financing.

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. As suggested during the previous work program discussion (EBM/93/76, 5/26/93), the background documentation will also include a paper on the economic implications of unproductive expenditure. If Executive Directors wish, this paper could also serve for a Board seminar discussion.

The world economic and market developments sessions will continue to focus on emerging trends and tensions in the world economy, thus providing a useful surveillance complement to the world economic outlook exercise. Consistent with the aim of holding these informal sessions every six weeks or so, meetings could be held on December 13, 1993, in February 1994, and on April 4, 1994, just ahead of the spring 1994 world economic outlook discussion.

As part of our continuing analytical work to strengthen Fund surveillance, the staff is preparing a paper dealing with approaches to assessing the consistency of exchange rates with economic fundamentals, which could be considered by the Executive Board in March 1994. The paper would summarize the methods that are available for calculating a set of exchange rates--be it for fixed or flexible exchange rate regimes--that are consistent with economic fundamentals at positions of internal and external balance over the medium term.

The staff will also prepare a paper surveying selected developments and issues in the international exchange and payments system, drawing upon the inventory of individual members' systems provided by the Annual Report on Exchange Arrangements and Exchange Restrictions. Earlier review papers on this subject were circulated in September 1989 and in June 1992. The new paper would focus, in particular, on issues related to current account convertibility and exchange controls, including a special emphasis on progress with Article VIII acceptances, on progress with capital account convertibility and experience with capital controls, on exchange rate regimes and practices, and on regional and bilateral payments systems. In addition to reviewing the recent developments and issues in these areas, particular attention will be devoted to the role of the Fund in promoting a sound international exchange and payments system.

An issue of importance for both developing and industrial countries is the behavior of non-oil commodity prices. A paper

will review recent trends and developments in this area and will identify the factors that have contributed to the behavior of non-oil commodity prices. The paper could be available for Board discussion early next year.

The next international capital markets report, which will be available for Board discussion in June 1994, will focus on the operation of government securities markets in industrial countries, on short-term capital movements, on securities markets in fledgling financial systems, and on access to international capital markets by developing countries and countries in transition.

Directors will be kept informed about progress in, and the conclusion of, the Uruguay Round discussions. An assessment of the outcome of the Round, including its implications for the Fund, will be discussed by the Board at an early date. This subject will also be taken up in the context of the world economic outlook discussion and in the comprehensive trade paper to be put to the Board before the 1994 Annual Meetings.

Later in 1994, we should undertake the major periodic review of trade policy issues and developments in industrial, developing, and transition economies, and in the multilateral trading system as a whole. The last such review was undertaken in 1991. The review could also focus on developments in regional integration and emerging trade and trade-related issues--such as competition policy, the environment, trade and employment issues--and their possible implications for various groups of countries and for the Fund. Such a comprehensive trade paper could be considered by the Board before the 1994 Annual Meetings.

2. Issues related to SDR allocations

The Interim Committee has called on the Executive Board to continue its work on SDRs and related matters--having particularly in mind the situation of the many members that have not participated in previous SDR allocations--and to report to the Committee at its next meeting. A paper on the legal aspects of allocation and reallocation of SDRs to "new participants" will be prepared for Board consideration in January 1994. The paper would examine the legal aspects of participation of new members in SDR allocations, and whether SDR reallocations can be achieved through cancellation and new allocation. In the light of the discussion of this paper, the staff would prepare a further paper that would focus on the modalities of an appropriate redistribution mechanism and would address the situation of members that have not participated in previous SDR allocations.

3. Country-related activities

In the period through the 1994 Annual Meetings, the aggregate burden of country-related activity is expected to remain heavy, reflecting the strengthening of Fund surveillance and the continued high demand for the use of Fund resources. On the basis of area departments' projections, and taking into account possible slippages from their work plans, the Executive Board would be expected to conclude Article IV consultations with some 150 members, about one third of which would be combined with the use of Fund resources or reviews. Area departments assume that about 74 requests for new arrangements, including subsequent year arrangements under the structural adjustment facility and the enhanced structural adjustment facility (SAF/ESAF), and 95 reviews under existing or prospective arrangements could be brought to the Board agenda through October 1994.

In the period from November 1993 through April 1994, about 85 Article IV consultations and 48 requests for the use of Fund resources, including second purchases under the systemic transformation facility and arrangements under the ESAF successor, are expected to be brought to the Board's agenda. As in the case of Article IV consultations, it should be expected that there may be some slippage from the departmental projections with respect to requests for the use of Fund resources.

The tentative timing of Board consideration of Article IV consultations, reviews of existing arrangements, and requests for subsequent-year arrangements; a tentative schedule of Executive Board meetings; and indications on the number of country-related items to be considered by the Board in the work program period have been circulated to Directors.

In recent years, we have witnessed a substantial increase in the demand for the Fund's technical assistance stemming from the rapid increase in membership and the pressing needs for training and technical assistance associated with structural reform in developing countries and economies in transition. A paper reviewing the Fund's technical assistance will be included in the background documentation for the Board discussion of the budget outlook in a medium-term context. This is an area of Fund work to which considerable staff resources are being devoted. We will continue with the current practice of providing Executive Directors with regular information on requests for technical assistance. In addition, as in the past, technical assistance needs of individual countries will be reviewed in the framework of Article IV consultation discussions.

As emphasized during the previous work program discussion, we will continue to strengthen the regional focus of Fund

surveillance. In the framework of the world economic outlook exercise and on the occasion of Article IV consultation discussions, particular attention will be devoted to issues and problems of a macroeconomic or related nature that are common to a number of countries, including--but not limited to--various groups of member countries with regional institutions. In this respect, a paper on monetary policy options within the Exchange Rate Mechanism (ERM) will be issued for a seminar discussion early next year. In addition, the staff is scheduled to hold discussions with the European Commission on several subjects and will prepare a report on these discussions for Board consideration. In response to the interest expressed by several Directors, two papers on the financial relations and trade policy reform in the states of the former Soviet Union, examining various aspects and issues in these areas, have been circulated for Board discussion, possibly in seminar form, at an early date to be agreed.

4. Policies on the use of Fund resources and design of policy advice

Fund Governors have endorsed the establishment of an ESAF successor and called on the Executive Board to "implement rapidly the agreed framework so as to ensure continuity of ESAF operations after November 30, 1993." I have been encouraged by my continuing discussions with potential contributors to the ESAF successor. I will be in touch with Executive Directors on this matter and count on your steadfast cooperation so that we can move forward quickly and see to it that the necessary documentation on financial and operational matters can be brought to the Board for consideration before end-November.

The staff documentation on the review of design and experience under stand-by arrangements and extended arrangements could be brought to the Board agenda in March 1994. As indicated on the occasion of the previous work program discussion, the paper will go beyond a review of conditionality per se and will focus on analytical aspects of program design and on experience with programs. The paper will cover programs approved during 1988-91.

The next review of issues related to financing of developing countries and their debt situation could be considered prior to the 1994 Annual Meetings. A companion paper on export credits would review developments in this area since 1989--the last Board discussion of this topic.

In light of the recent Board discussion on the guidelines on Fund support for debt and debt-service reduction, and the broad-based support for the elimination of segmentation on the use of set-aside and augmentation resources, a staff paper will be circulated proposing the needed modifications of the guidelines, while taking into account the concerns of Directors who have emphasized

the need for balance in debt operations. The paper could be considered by the Executive Board before the end of this year.

It is planned to issue a paper, for approval on a lapse of time basis, extending the deadline for the review of the cereal decision from June 1994 until the next review of the compensatory and contingency financing facility decision, which is to take place not later than January 1996.

The paper on fiscal content of Fund-supported adjustment programs in economies in transition could be available for consideration by the Board, possibly in seminar format, in January 1994. Board discussion of the paper on quasi-fiscal deficits could also take place in January 1994. A paper presenting factual information on the staff work on environmental issues, including the linkages between Fund policy advice and the environment will be circulated for the information of Executive Directors.

As requested, a paper on the legal aspects of bilateral payments arrangements will be circulated for Executive Directors' information in early 1994.

5. Development Committee matters

The Development Committee intends to discuss population and migration issues at its spring 1994 meeting, and development effectiveness at its fall 1994 meeting. For both meetings, documentation will be prepared by the World Bank in collaboration with the Fund staff. The paper for the fall meeting will focus on the effectiveness of bilateral and multilateral aid, with special emphasis on the work of the World Bank. For the spring meeting, the Committee of the Whole for the Development Committee will have an opportunity to comment on the draft outline of the paper on population and migration issues in December/January, and will consider the paper prior to the ministerial meetings.

As Directors have been informed, the Development Committee, in its recent meeting, has agreed to set up a working group on the future of the Committee, which would review the present mandate and terms of reference of the Committee, as well as its current methods of operation. The group will report on the progress of its work to the Chairman of the Development Committee before April 1994. The Executive Board will be kept informed of developments in that area.

6. Tenth General Review of Quotas

As agreed earlier, a paper on the working of the quota formulas under the Tenth General Review could be considered by the Board in January 1994. The paper will address the concerns

regarding the distribution of quotas in the Fund, as well as issues raised during the Ninth General Review on the variables entering into the quota formulas. A companion paper presenting preliminary calculations for the Tenth Review would be circulated at the same time.

As needed, a paper on the possible further extension of the periods of consent and payment under the Ninth General Review could be issued in December for Board consideration. A paper dealing with the membership of Eritrea and the calculation of its quota will be issued in November 1993.

7. Financial matters

In response to the interest expressed by Executive Board members in discussing the financial cost of operating the Fund and the question of burden sharing, a paper setting out the alternatives to the present system of cost distribution--including, if needed, through amendment of the Articles of Agreement--will be issued for Board consideration in January 1994. Also, a companion paper on the factors bearing on the level of the Fund's precautionary balances will be issued for that Board discussion. Follow-up papers will be prepared as may be necessary.

With regard to the cooperative strategy on overdue financial obligations to the Fund, we welcome the clearance of their arrears by Cambodia and Viet Nam, and we are encouraged by the progress achieved by several countries under the strategy and the decline in outstanding overdue obligations from SDR 3.6 billion at end-December 1992 to SDR 3.0 billion at present. The next six-monthly report on overdue obligations, including a review of the arrears strategy, and a paper for the annual review of special charges will be issued for Board consideration prior to the spring 1994 ministerial meetings. Also, in the framework of the Board's reviews of individual arrears cases, we will need to consider in the case of Sudan the next step under the Fund's timetable for dealing with cases of suspension of voting rights.

Papers reviewing the Fund's liquidity position and financing needs will be prepared in advance of next spring's Interim Committee meeting and of the 1994 Annual Meetings. A paper reviewing access limits on the use of the Fund's resources has been scheduled for Board consideration on October 27.

A paper on the midyear review of the Fund's income for FY 1994 will be brought to the Board's agenda in December 1993. Papers reviewing the Fund's income for FY 1994 as a whole and setting the rate of charge for FY 1995 would be considered by the Board in June 1994. A paper proposing an update and consolidation of the I-Rules, and in particular, reflecting the recent changes

in the system of charges, will be available for Board consideration in November.

8. Administrative and related matters

The next paper on the budget outlook in a medium-term context will be issued for Board discussion on December 10, 1993, and will include, as supporting documentation, a paper on the midyear review of FY 1994 administrative and capital expenses. Management will also wish to discuss with the Board, in an appropriate framework, issues such as a review of staff productivity, and a paper on activities and resource utilization, as well as papers reviewing the research activity in the Fund, Fund technical assistance, statistical practices in the Fund, the role of resident representatives, and Fund travel policy. The discussion of the medium-term budget outlook will provide critical inputs for the preparation of the Administrative and Capital Budget for FY 1995, which could be considered by the Board on April 15, 1994. The 1994 Staff Compensation Review could take place on April 11.

A discussion of the results of the Quadrennial Benefits Survey could take place in March 1994. Other papers on proposals for simplification of staff benefits are expected to be considered by the Committee on Administrative Policies.

Following the recent agreement between the five participating organizations on the establishment of the Joint Vienna Institute, a paper explaining the terms of the agreement and seeking Board approval for signature of the agreement will be scheduled for discussion on October 29.

To assist Executive Directors in preparing for the exchange of views on Annual Meetings arrangements, the Secretary has circulated a brief memorandum and relevant statistical information. It should be noted that the World Bank Executive Directors have agreed that a Committee of the Whole should undertake a review of various aspects of the Meetings, including a review of costs. As background for the review, the Bank Secretary will draw in part on a paper on the cost of the Meetings that is being prepared with Fund staff assistance at the request of the Bank's Committee on Cost Effectiveness and Budget Practices.

In an informal meeting scheduled for November 1, Executive Directors were briefed on progress with Phase III of the headquarters building and with regard to long-term space options. A final decision on Phase III and the capital budget for its construction will be submitted for Board consideration in March 1994.

Mr. Shaalan made the following statement:

I am in broad agreement with the proposed work priorities and program for the period ahead as set out in the Managing Director's statement. I shall therefore only touch on a few selected items.

On the world economic outlook and systemic issues, I would like to make the following comments.

The planned focus of the forthcoming world economic outlook exercise is broadly appropriate, and we particularly welcome the staff's intention to examine the reasons for the substantial disparities in growth performance among groups of developing countries. Variance in growth performance among groups of developing countries is not a new phenomenon, and some useful work on this has already been done. However, as past world economic outlook analysis has tended to focus on the experience of good performers, I believe that, in addition to extending that analysis further, it would be useful to pay special attention in the planned work for the spring world economic outlook to the cases of poor growth performance. We hope that, in addition to a thorough examination of the "domestic policies-growth link," the planned work will involve a detailed analysis of the effects of terms of trade developments and, more generally, developments in the international environment. Moreover, since the planned work on the review of design and experience under stand-by and extended arrangements will focus on the experience of countries with Fund-supported programs, it is hoped that the staff's analysis in the world economic outlook of the "adjustment-growth" link will significantly draw on the experience of countries that did not have Fund-supported programs during the period covered by the analysis. I believe that this is an important issue to address.

The depth and persistence of the recent global recession have severely tested the optimism, if not the patience and creativity, of economic forecasters both inside and outside the Fund. As the recessionary conditions lingered on, explanations were put forth to explain why and in what ways this recession was different from previous ones. As we all can recall, those explanations were not always or universally accepted. This has resulted in--if it was not the result of--widely differing views on what, if anything, needs to be done to end the recession; and deliberations on this matter, including in this Board, have frequently turned out to be somewhat too defensive. I therefore believe that it would be useful when all the facts are in--which I hope will be in the course of the coming year--for the staff to undertake an in-depth post mortem examination of the recent recession, with a view to identifying policy lessons that may be drawn from this prolonged experience.

This chair was among those that questioned, on the occasion of the last Board discussion of the work program, the productivity of Board consideration of unproductive expenditures. Taking into account the range of the views that were expressed during that discussion, it was indicated then that the staff would finalize its paper on the subject before the informal recess. I note that the paper now carries a title--"economic implications of unproductive expenditure"--that would seem to warrant its inclusion in the background material for the spring world economic outlook discussion. I hope that in line with its title, the paper's coverage will go beyond the economic implications of military spending. Specifically, I believe that the domestic and international economic implications of unproductive expenditures in the industrial countries, especially in the trade-sensitive sectors, should be an integral part of the study.

The planned work on the consistency of exchange rates with economic fundamentals is very much welcome. This work could significantly enhance the analytical framework within which the Fund's surveillance function is performed, and it could contribute to making more feasible than in the past anticipatory assessments by the staff and national authorities of the consistency of the exchange rate with economic fundamentals. This is clearly important, particularly in the industrial countries.

In response to concerns expressed during the last work program discussion regarding the scope of the paper on non-oil commodity prices, the Secretary remarked that the broad macro-economic focus of the staff's study was consistent with those concerns. However, the description of the study contained in the present program of work would still seem to imply a somewhat narrow focus. Commodity prices, both oil and non-oil, are now down some 25 percent in constant dollar terms from their 1990 average. This merits examination. I believe, however, that the focus of the study could be more usefully placed on developments in the terms of trade of the developing countries rather than on the behavior of non-oil commodity prices.

We look forward to the staff's next report on international capital markets. The present plan for the report seems to be appropriate, although I wonder whether it would be feasible to expand the scope of the report to include further work on the markets for derivative instruments. The staff's most recent report on international capital markets has correctly highlighted the concern that the speed at which these markets have expanded and the complexity of many of the instruments have weakened risk management. Indeed, the recent growth of derivatives markets has been extraordinary, with estimates putting the present stock at more than \$8 trillion, and the daily turnover at close to \$1 trillion. Large industrial, commercial, and financial

establishments are more and more frequently engaged in these markets. Also, agents are increasingly having recourse to program trading techniques, thus adding the substantial risk of accentuating existing volatility in the markets. Moreover, as noted in the staff's most recent report on international capital markets, recent products may not be well understood either by senior management of banks or by supervisors of securities firms. All of these considerations strongly point to the need for the staff to do more work in this important area, if not in the context of the next report on international capital markets, then in the context of a separate paper on the subject.

We look forward to the proposed discussion of trade policy issues and developments.

As to issues related to SDR allocations, while mindful of the specific language contained in the Interim Committee's communiqué on this matter, I still believe that the situation of the many members that have not participated in previous SDR allocations should be addressed in the context of a new overall allocation. I should add that the said language does not preclude this option, which we view as being not only most consistent with established practice but also most responsive to the evident need for a long-term global reserve supplementation at this stage.

With regard to country-related activities, we look forward to the planned review of the Fund's technical assistance. In addition, we agree with the Managing Director on the need to continue to strengthen the regional focus of Fund surveillance. We also look forward to an early consideration by the Board of a report on the staff's planned discussions with the European Commission. An indication as to when those discussions are scheduled to be held would be appreciated.

With regard to policies on the use of Fund resources and design of policy advice, we fully share the Managing Director's emphasis on the need to bring the necessary documentation on an ESAF successor for Board consideration before end-November 1993. We attach importance to having the debt situation of developing countries reviewed by the Board prior to the 1994 Annual Meetings, which is in line with what we have been doing since the frequency of Board discussions of the debt situation was reduced to once a year. We look forward to Board consideration before the end of this year of the staff paper on the elimination of the segmentation provisions in the guidelines on the use of Fund resources in support of debt operations.

We agree with the proposed work on financial and administrative matters. As regards the Development Committee, it will be important to keep the Executive Board informed of the activities

of the working group on the future of the Committee and of its recommendations well before their formal consideration by the Committee.

Mr. Fukui made the following statement:

The Managing Director's statement on the work program for the period up to the spring 1994 ministerial meeting indicates clearly that the Board's schedule has become increasingly tight. Some issues, however, are not necessarily urgent. It is therefore even more important to sort out the urgent issues from those that are less urgent.

More specifically, although I agree that the world economic outlook exercise has improved and is more focused on important topics, I am concerned that the staff's analysis and recommendations are based on a somewhat short-term and countercyclical approach, whereby policy packages need to produce quick results. As has often been stated by our Governors at the Interim Committee and Annual Meetings, the major industrial countries are faced with more fundamental, structural problems, such as labor market immobility and social security reform. Although the policy package is important, the difficulty of returning to a strong growth path is now clear. I hope that in the future, the world economic outlook exercise will pay more attention to the need for structural reform or restructuring, which requires a long-term perspective. Indeed, this was a basic theme of this year's Annual Meetings speeches.

The World Bank has just published a book, entitled The East Asia Miracle, which has received considerable attention, and The Economist recently published a lengthy study on the same subject. The East Asian countries' development could provide some useful lessons in a Fund context. Although there has been some study of this matter in the Fund, I hope that the next world economic outlook will try to enhance further our understanding of the rapid growth of the East Asian countries.

I cannot say that the discussion relating to the EMS since the last world economic outlook exercise has been fruitful. There is a wide division of views on the ERM between this chair and those of some European countries, and the discussion so far has not led to visible or constructive results in terms of increased flexibility of monetary policy in ERM countries. I am afraid we will continue to repeat the same discussion. In my view, this issue can be taken up separately from the world economic outlook so as to allocate more space and time in that exercise to many other issues.

With respect to the paper on the international exchange and payments system, the Bank for International Settlements is undertaking a similar study, and I doubt whether it is necessary for the Fund to duplicate this work. As to the international capital markets report, I agree with the emphasis of this year's report, but in view of our experience last year, I hope that the Fund will take due consideration of the fact that a country's financial system is the product of its history. In forthcoming reports, I expect the staff to make a more realistic analysis, paying attention to the historical background of each country.

With regard to the Uruguay Round, although I fully subscribe to its importance, I wonder how far the Fund needs to be involved in multilateral trade matters. In my view, we should refrain from going beyond general support for this effort.

As to the issue of SDR allocations, although mindful of the language of the Interim Committee's communiqué, I believe that we first need to discuss the basic issue of global liquidity before we consider specific issues such as the legal aspects of allocation and the reallocation of SDRs to new participants. However, in light of the widely divided views at our last discussion on this basic question, I do not think that the issue needs urgent attention by the Board.

In view of the increasing number of country-related matters on the Board's agenda, we definitely need some streamlining of Board discussions. I recall that a proposal was made in this regard on the occasion of the Board's last retreat, but nothing has materialized so far. Probably more frequent recourse to approving reviews or concluding consultations on a lapse of time basis would be advisable. I would be interested in management's comments on this issue. In addition, I doubt that an analysis of financial relations and trade policy reform in the states of the former Soviet Union can be taken up for Board discussion in the near future in view of the uncertain political and economic situation of these countries. I understand that recently one country broke away from the agreement on financial arrangements for these countries.

My authorities have already made a commitment to the funding of the ESAF successor at the last Annual Meeting, and now we are in a position to ask the Managing Director to clarify the situation with regard to the facility's funding. The next phase of the discussion on the ESAF successor needs to take place as soon as possible.

On the issue of the environment, I agree that we need, first, to discuss the link between Fund policy advice and the

environment to find out how far we should be involved with this issue.

As this chair has repeatedly stressed, it is extremely important to complete and distribute the papers on the working of the quota formulas under the Tenth General Review of Quotas as soon as possible.

With regard to the issue of financial matters, I wonder whether a discussion of burden sharing would be meaningful or productive. In view of the long history of this issue and its sensitivity, I do not think that it has a high priority.

As to administrative matters, we need to be extremely careful about the formulation of next year's budget, particularly in view of the adverse atmosphere surrounding the international financial institutions. I would therefore suggest that, in the next budget paper, any new initiatives be clearly defined together with their cost implications and that the principle of "scrap and build" be firmly maintained. In general, while I fully agree with the basic concept of "consolidation," I would stress that consolidation should not merely imply retrenchment or downsizing. We must be mindful that any damage to staff morale will not serve anybody's interest, including shareholders'. The Fund has just become a global institution, and there is a tremendous need for Fund activities related to new members and for technical assistance, among other things. Our adjustment strategy is just starting to bear fruit. We are now launching the ESAF successor. We support these Fund activities, and the Fund must do what needs to be done.

On the activities of the Research Department, only two days after my authorities announced an additional economic package last September, there were comments from the Research Department that the package was not effective enough, without any Board discussion. This incident caused us some concern. We know that the task of the Research Department is difficult. But it should not be too journalistic or politically inclined, nor should it compete with other research institutions. We hope that Research Department papers will strike a good balance so as to convey the broad sense of the international community. This task must be done with prudence so that the Fund can enjoy good credibility among member countries.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/93/151 (10/29/93) and EBM/93/152 (11/3/93).

2. ARGENTINA - REVIEW UNDER EXTENDED ARRANGEMENT

1. Argentina has consulted with the Fund in accordance with paragraph 4(d) of the extended arrangement for Argentina (EBS/92/46, Sup. 1), as amended, paragraph 3 of the letter of December 10, 1992 from the President of the Central Bank and the Minister of Economy and Public Works and Services of the Argentine Republic, and the letter of June 11, 1993 from the Minister of Economy and Public Works and Services of the Argentine Republic, in order to review the implementation of the economic program for 1993, including the implementation of the policy intentions specified in the letter dated June 11, 1993.

2. The Fund decides that the first review contemplated in paragraph 4(d) of the extended arrangement for Argentina, as amended, is completed, and that, notwithstanding paragraph 4(a) with respect to the nonavailability of data for end-September 1993 performance criteria, Argentina may proceed to make purchases under the arrangement up to the equivalent of SDR 1,593.15 million until December 1, 1993. (EBS/93/167, 10/8/93)

Decision No. 10505-(93/152), adopted
October 29, 1993

3. STAFF MEMBER - LEAVE WITHOUT PAY

The Executive Board approves the proposal set forth in EBAP/93/67 (10/27/93) concerning the extension of leave without pay for a staff member.

Adopted November 1, 1993

4. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 93/31 through 93/38 and 93/40 through 93/43 are approved.

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/93/189 (10/29/93) is approved.

APPROVED: May 5, 1994

LEO VAN HOUTVEN
Secretary