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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 98/38

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Contents

	Page
Executive Board Attendance	1
1. Liberalization of Capital Movements Under an Amendment of Articles— Statement by Managing Director	3
2. Interim Committee—Issues	31
Decisions Taken Since Previous Board Meeting	
3. Trust for Special ESAF Operations for Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations—Terms and Conditions for Administration of Account Provided Under Section III, Paragraph 5(b) of Trust .	37
4. Executive Board Travel	40

Executive Board Attendance

M. Camdessus, Chairman
S. Sugisaki, Deputy Managing Director

Executive Directors

T.A. Bernes
R.F. Cippà

E.R. Grilli
D.Z. Guti

A. Kafka
W. Kiekens
K. Lissakers
J.-C. Milleron

A.V. Mozhin
G. O'Donnell
A.S. Shaalan
M.R. Sivaraman
G.F. Taylor
J.J. Toribio
J. de Beaufort Wijnholds

Y. Yoshimura
Zamani, A.G.

Alternate Executive Directors

S.M. Al-Turki
J. Chelsky, Temporary
W. Szczuka
W.-D. Donecker
A. Giustiniani, Temporary

A.R. Palmason, Temporary

R. Fernández
M. Daïri

J. Shields

L.B.J. van Geest, Temporary
A. Barro Chambrier

Han M.
N. Eyzaguirre

R.H. Munzberg, Secretary
S.W. Tenney, Assistant

Liberalization of Capital Movements Under an Amendment of the Articles—Statement by Managing Director

Staff representatives: Boorman, PDR; Gianviti, LEG; Guitián, MAE

Interim Committee—Issues

Staff representative: Munzberg, SEC

Also Present

External Relations Department: Kane, H.P. Puentes. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; R.B. Leckow. Monetary and Exchange Affairs Department: M. Guitián, Director; R.B. Johnston, J.E. Leimone. Policy Development and Review Department: J.T. Boorman, Director; T. Leddy, Deputy Director; L.D. Dicks-Mireaux, M. Fisher, L.Y.M. Leigh, J. Lin, L. Nielsen, R.H. Nord. Research Department: M. Mussa, Director; A.J. Tweedie. Secretary's Department: S. Bhatia, P. Gotur. Treasurer's Department: D. Williams, Treasurer; T.M. Mast, O. Roncesvalles, I. Zaidi. Office of the Managing Director: M. Cross, Personal Assistant. Office of the Deputy Managing Director: B. Christensen. Advisors to Executive Directors: W.F. Abdelati, P.A. Akatu, M. Askari-Rankouhi, O.L. Bernal, J.A. Costa, M.H. Elhage, S.S. Farid, P.M. Fremann, C.M. Gonzalez, K.M. Heinonen, N. Jadhav, H. Kaufmann, M.-H. Mahdavian, M.F. Melhem, H. Mori, H. Ogushi. Assistants to Executive Directors: A.S. Alosaimi, M.A. Cilento, H.W. Cocker, A.L. Coronel, D.A.A. Daco, M.A. Hammoudi, J.K. Honeyfield, M. Kell, T.-M. Kudiwu, J.P. Leijdekker, A. Lushin, M.Z. Maatan, A.R. Palmason, O. Schmalzriedt.

1. LIBERALIZATION OF CAPITAL MOVEMENTS UNDER AN AMENDMENT OF ARTICLES—STATEMENT BY MANAGING DIRECTOR

The Executive Directors considered a statement by the Managing Director on the Liberalization of Capital Movements Under an Amendment of the Articles (BUFF/98/37, 3/26/98). They also had before them as background the Summary of the Seminar on Capital Account Liberalization, which was held at headquarters on March 9–10, 1998 (SM/98/75, 3/25/98).

The Managing Director made the following statement:

In Hong Kong last September, the Interim Committee issued a Statement on the Liberalization of Capital Movements Under an Amendment of the Articles, inviting the Executive Board to complete its work on a proposed amendment of the Fund's Articles that would make the liberalization of capital movements one of the purposes of the Fund and extend, as needed, the Fund's jurisdiction through the establishment of carefully defined and consistently applied obligations regarding the liberalization of such movements. In its communiqué, the Interim Committee requested the Executive Board to accord high priority to this work.

In light of the Interim Committee's request, it is important that we continue to make progress in our work on the amendment. I would note that many of the participants in our seminar on capital account liberalization also pointed to an amendment of the Articles as the most effective means of promoting the orderly liberalization of capital movements consistent with the Fund's central role in the international monetary system.

With this in mind, I have attached to this statement a draft outline of the proposed Fifth Amendment of the Fund's Articles.

With respect to the three sections of the draft outline, the following may be noted:

Purposes. The outline proposes specific language for Article I to include the liberalization of capital movements in the Fund's purposes. The proposed language attempts to reflect the importance of capital in the international economy and the Fund's role in the orderly liberalization of international capital movements.

Jurisdiction. The outline does not propose specific language for Article VI or other provisions of the Articles but sets forth the key principles that would guide the drafting of the relevant amendments. These principles are intended to reflect Executive Board deliberations to date, and it is recognized that additional principles may need to be added as discussions continue. For example, the Executive Board has not yet discussed in detail the treatment of subnational measures and regional groupings.

It is also recognized that there are a number of aspects of the principles contained in the outline that will require further elaboration or where

agreement is still very preliminary. This is particularly true in the case of the treatment of restrictions on inward direct investment: the proposed “two-step” approach has only been discussed on an informal basis and, moreover, there are a number of important outstanding questions regarding how the concept of “restrictions on inward direct investment” will be defined. Further elaboration is also necessary with respect to a number of other issues relating to the scope of the Fund’s jurisdiction, including the treatment of implicit discrimination.

Other Aspects. The principles are confined to those matters where preliminary agreement appears to have been reached. As has been noted in the past, there are a number of other issues that are related to—but are not a necessary part of—an expansion of the Fund’s jurisdiction. For instance, the question has been raised whether the rules on settlement of disputes and remedies under the Articles should be amended. An additional issue is the future of Article VIII, Section 2(b), which has been, and will continue to be, discussed separately in the context of the Fund’s policy on arrears to private creditors.

Proposed Fifth Amendment—Outline

Purposes

The text of the Fund’s purposes set out in Article I (ii) and (iv) would be revised to read as follows (modifications are indicated):

“(ii) To facilitate the expansion and balanced growth of both international trade in goods and services and international capital movements, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.”

“(iv) To assist in the establishment of a multilateral system of payments in respect of current and capital transactions between members, ~~and in the elimination of foreign exchange restrictions which hamper the growth of world trade,~~ and in the orderly liberalization of international capital movements.”

Jurisdiction

1. The amendment will establish the general rule that members are prohibited from imposing restrictions on international capital movements without Fund approval.

2. The amendment would also set forth specific exceptions to the general rule. These exceptions would be as follows:

(a) Similar to the transitional provisions that exist under the present Articles, members would be able to “maintain and adapt to changing circumstances” restrictions that are in place at the time the amendment enters into force or, for future members, at the time of membership.

(b) Members would have the right to impose restrictions on inward direct investment. However, the amendment would give the Board of Governors the authority to decide, by an 85 percent majority of the total voting power, to extend Fund jurisdiction over some or all of these restrictions at a later date. The procedures for defining the different categories of inward direct investment would be set forth in the text of the amendment itself.

3. With respect to the meaning of the general rule, the text of the amendment or the commentary would provide the following:

- (a) “capital movements” would include (i) capital transactions and (ii) the making and receipt of payments and transfers for such transactions;
- (b) for the purpose of determining when a capital transaction is “international,” the Fund would rely on (i) the residence of the parties and (ii) the location of the asset; and
- (c) an official measure would be a “restriction” on a capital transaction if it discriminates between domestic and international transactions, i.e., if it treats international transactions less favorably than domestic transactions and such less favorable treatment is not justified by relevant circumstances. With respect to restrictions on the making of payments and transfers for capital transactions, the Fund would be guided by the principles that it has developed under its existing jurisdiction over payments and transfers for current transactions.

4. Although the features of the Fund’s approval policies would not be set forth in the text of the amendment itself, it is expected that by the time the amendment becomes effective, the Board would have agreed upon these features.

Other Aspects

1. The Fund would retain the right to request the imposition of restrictions on capital movements in order to avoid an excessive use of its resources.

2. Consistency of a restriction with the Articles (e.g., after Fund approval of the restriction) would not exempt a member from its obligations under other (existing or future) treaties.

Extending his remarks, the Chairman made the following statement:

We have before us my statement on the Liberalization of Capital Movements Under an Amendment of the Articles, which was circulated as BUFF/98/37. As background, we also have a summary of the seminar on capital account liberalization, which was held at headquarters on March 9–10, 1998. That seminar has proven invaluable in shaping the current positions of both Executive Directors and management.

I am grateful for your thoughtful participation during the recent informal discussion on April 2, 1998. Before we start the more formal part of the meeting, allow me to share some of the issues coming out of that session.

First, the liberalization of capital movements is now an extremely important issue for the Fund, and it is a challenge we must face head on. Although we have received a mandate from the Interim Committee, we have also been given a more general responsibility by the international community to shape its response to the Asian crisis. We have learned many lessons from the Asian experience, and there are many yet to learn. We have talked with key actors, and we have seen the importance of capital account liberalization. We must demonstrate to the world that we are responding effectively. However, we should not act precipitously. While learning the complexities of the task at hand, we must take time to fully explore the implications of our proposals and ensure that no stone is left unturned. At the same time, however, we should not give the impression that we are procrastinating or that we are trying to escape from our responsibilities. I hope that the summer will provide us with an opportunity to fully develop our thoughts and to address some of the existing confusion surrounding this issue—over the next few weeks, the staff will produce a series of reports for your consideration.

Our motto should be *festina lente*—make haste slowly. It is vital that we approach the Interim Committee with draft language that has been agreed among ourselves. The General Counsel, drawing on your suggestions, will circulate a new draft, and it is important that our Ministers and Governors familiarize themselves with this language—understanding, of course, that we will have more time over the summer to address the more complicated issues relating to jurisdiction. We have a mandate. It is crucially important. And we must respond.

I would like to make several comments on some of the points that were made during the recent informal session. The first is on the issue of advocacy versus jurisdiction. I have serious misgivings about the advocacy approach. Many colleagues have told me that the Fund must move toward greater symmetry. Although we have made progress, we still have some distance to go. Advocacy, however, is in conflict with the concept of symmetry—it would mean that, to achieve capital account liberalization, we would have to rely on conditionality. Those who are not users of Fund resources would not be under the same pressure to liberalize as those who do use Fund resources. I believe that jurisdiction—with all the definitions, prudential requirements, safeguards, and procedures we would need to introduce—achieves the purposes of the

Fund in a more symmetric spirit. I would appreciate it if those who have advocated greater symmetry would comment on how to escape from this contradiction.

The second question is directed to Mr. Yoshimura. Was it his position that Japan had not yet made a clear commitment to capital account liberalization? Although it was true that France had been prudent in its movement toward capital account liberalization—15 years ago—Japan is now in the midst of the “big bang” of domestic financial market liberalization. It is difficult to reconcile Japan’s commitment to this liberalization, with its refusal to take a leadership position on capital account liberalization. I do not expect Mr. Yoshimura to outline the final position of the Japanese authorities today, but it is important to realize that we are all confronted with a major historic opportunity.

The General Counsel made the following statement:

After reviewing the text discussed at the informal session, we think that two modifications should be considered. First, in Article I (ii), we propose not to refer to international capital movements directly, but instead to the results of liberalization; namely, an efficient international allocation of capital. There would then be greater symmetry between the results of capital account liberalization—i.e., better allocation—and the results of the liberalization of current payments—i.e., facilitating the expansion and balanced growth of international trade. In other words, Article I (ii) would outline the ultimate goals of the Fund’s more immediate work—liberalization of either current payments or capital movements.

In Article I (iv), the concept of liberalization appears after the other direct responsibilities of the Fund: the establishment of a multilateral system of payments, both with respect to current and capital transactions; and the elimination of foreign exchange restrictions. We propose to change the order of the three concepts. The primary task of the Fund is the liberalization of payments. Then comes another task: the liberalization of international capital movements. That would include capital transactions. Finally, essentially representing the removal of any loose ends, comes the elimination of exchange restrictions. We are not saying that it is the least important, but chronologically it would come at the end of the sequence.

Mr. Bernes remarked that he would have been comfortable with the earlier draft, but the current draft being proposed by the General Counsel was an improvement. On the issue of advocacy versus jurisdiction, many of the Fund’s successes had been achieved through advocacy. Through surveillance, advice, technical assistance, and conditionality, the Fund had proved most effective in promoting current account and trade liberalization; and much of that success could be attributed to the fact that advocacy involves greater ownership by the national authorities. Further, the issue of symmetry seemed somewhat misleading. There was no asymmetry in surveillance or technical assistance, and while there may have been asymmetry in terms of conditionality, that only applied where critical to the success of a program.

It was important that the Fund be proactive in responding to the Interim Committee's mandate, Mr. Bernes continued, and that the Interim Committee send a strong message on the Fund's commitment to the liberalization of capital movements. An agreed amendment to Article I would be the most concrete way of achieving that goal.

However, the current issue of contention was how the Fund would promote such liberalization, Mr. Bernes said. Amendments should not just stop with Article I, but should also include Article VI to remove the bias against capital account transactions and Article VIII (v) to impose greater reporting and transparency requirements for capital account restrictions. Beyond this, the Fund had to consider clearly the detailed prerequisites of liberalization—a strong regulatory framework, a sound banking system, an adequate supervisory structure—as well as the appropriate sequencing of liberalization measures. What was needed was an agreed set of guidelines and principles. If, at that stage, it appeared that a change in jurisdiction was required, it would then be appropriate to discuss that issue. Given that so much had yet to be resolved, it seemed premature to start with the assumption that jurisdictional changes were needed.

Ms. Lissakers asked Mr. Bernes if he no longer supported the Board's previous report to the Interim Committee. Paragraph 5 of the report had stated that "there is general agreement by the Board that, in addition to the continued use of surveillance and technical assistance to promote the orderly liberalization of capital movements, the Fund's Articles should be amended, one, to extend the Fund's jurisdiction to capital movements." Further, the issue of advocacy versus jurisdiction had been addressed explicitly at that time, leading the report to state that "while extending this only to purposes would allow us to use conditionality to promote the liberalization of capital movements, the Board recognized, however, that conditionality alone would not enable the Fund to promote capital liberalization among all of its members in a uniform and sustained manner, hence the need for jurisdiction." It had been Ms. Lissakers' understanding that the issue of jurisdiction per se had been settled, and that the task at hand was to agree on the scope of that jurisdiction.

Mr. Bernes, Mr. Kafka, Mr. Shaalan, and Mr. Daïri stressed their understanding that statements from those previous meetings had been preliminary and nonbinding, and that the final conclusions of the Board would reflect further discussion and world developments.

The Chairman stated that, given the language of the preliminary report to the Interim Committee, the Board should not change lightly the views expressed at that time. Strong arguments would be needed to alter course at this stage.

Mr. Bernes remarked that, rather than focusing on what was said six months ago, the Board might want to focus on the substance of how the Fund could advance the liberalization of capital movements. It did not seem useful to commit to any particular avenue: as a result of the Asian crisis, many authorities and organizations had been considering the issue at length, and their differing conclusions and concerns could prove valuable.

Ms. Lissakers pointed out that the Board had already reported to the Interim Committee on its conclusions and how it would proceed—specifically, that the Fund would seek expanded jurisdiction. The Interim Committee had accepted that report and had tasked the Board to move quickly toward specific language. If the Board now wanted to change its views, it should return to the Governors and explain why. The Executive Directors had not yet provided any compelling reason to do so.

Mr. Bernes replied that his position reflected the views and concerns of the Governors in his constituency. Any proposed language would need an 85 percent majority of the Fund's voting power, so the Board should proceed cautiously to ensure that such a majority would approve any amendment.

Mr. Sivaraman remarked that the Interim Committee meeting was close at hand and that the Board would have to report on its progress. At that stage, an apparently sharp division in the Board would send the wrong signal to the media and the international community and might jeopardize the continuing staff efforts to promote capital liberalization through advocacy. The Board should, therefore, proceed with the amendment of Article I, so that it could at least report that agreement had been reached on the altered purposes of the Fund. The Board could then say that other issues—such as the extent and details of jurisdiction—were still under discussion.

During the recent crisis, Mr. Sivaraman continued, it had rapidly become apparent that the Fund did not have the resources to adequately help those members in need. In the event of another crisis, extended jurisdiction might allow the Fund to use its leverage to prompt members to contribute. Without jurisdiction, the Fund would once again have to rely on the goodwill of the international community.

Mr. O'Donnell agreed with the importance of public perception, but remarked that the markets might react adversely if the Board were perceived as having moved backward from the position taken previously.

Mr. Eyzaguirre commented that discussion in the past had been frustrating, as substantive issues had been placed behind procedural ones. However, he agreed with the need for extended jurisdiction. Such jurisdiction would allow a more evenhanded treatment of the Fund's members and would stand as a clear indicator of the Fund's conviction on the need for capital liberalization.

Mr. Daïri remarked that he was not, as a matter of principle, against extended jurisdiction, but the events of the past six months had raised considerable concerns for many members. It was, therefore, important to generate broad confidence and support. By focusing on advocacy in the short-term, while carefully reviewing the detailed policies and criteria that capital movement liberalization might entail, the Fund would appear to be taking a more prudent and cooperative approach. For now, it was preferable to stress agreement on amendments to the Fund's purposes, while waiting to see if further jurisdiction was actually required.

The Chairman commented that the Asian crisis had been a powerful argument for added jurisdiction. If it were to rely on technical assistance and surveillance, the Fund would not be able to prevent such crises from happening again.

Ms. Lissakers made the following statement:

Many members quite legitimately asked for a pause in this whole process of moving toward an amendment, in light of the developments in Asia. I think that is absolutely legitimate. One should not go forward with such a serious undertaking without weighing all of the analytic considerations and the facts. We have a lot more facts, in light of recent developments in Asia, to

consider that have a direct bearing on our thinking about the pace and scope and manner of capital account liberalization that, indeed, is at the heart of the Asian crisis. So I have absolutely no quarrel with that view.

I think the seminar was a very good vehicle for taking account of recent developments and hearing many different views, including from inside the institution, from governments, and from market participants. I have to say that, on balance, nothing that was said or argued in the seminar led me or my authorities to change our view on either the desirability or the necessity of an amendment to eliminate the asymmetry in the Articles—in fact, I think it reinforces that view—nor did it change our basic assumptions about the scope of that amendment. I think the seminar confirmed that a freer flow of capital is an important means of enhancing global economic welfare, and that, after all, is the ultimate objective, the whole nexus, of international cooperative institutions, including the Fund.

Many seminar participants outlined and stressed how important the manner in which capital account is liberalized has important consequences, and that when incentives are distorted, regulation and supervision of financial institutions may be inadequate. There was, I think, a broad consensus which I think we all share, that liberalization should be orderly and sequenced, that ideally liberalization should focus on capital flows that are more likely to be sustainable at the first stage, but that delays in liberalization should not be the excuse for postponing necessary macroeconomic and structural and institutional reforms. We have the sense that liberalization should be orderly and again sequenced, given that the next logical step is to look to the role of the IMF in this context since it has an overarching responsibility for smoothing the functioning of the international monetary system. Moreover, the Fund has a direct interest and role in how capital account liberalization is undertaken, because as we have just seen, there are very large implications for the IMF's own resources, and very large-scale demand for financial support from the Fund can be triggered by poorly implemented liberalization and volatile capital flows.

There was strong support among seminar participants that the Articles should be amended to make capital account liberalization an explicit purpose of the Fund, and there were differences on the scope of that amendment, including on the issue of specific obligations of members. The other events that we have to weigh, not just the seminar debate, are the developments in Asia. I must say that those developments argue for speed and some ambition in our amendment. I think that if you look at the response of the Asian governments themselves to this crisis, there is no reason to beat a retreat from the path that we had set for ourselves last September. The Asian countries themselves are not retreating from capital account liberalization. On the contrary, they have in recent discussions focused very much on how to broaden and deepen their own capital markets, recognizing that shallow and distorted capital markets have been a source of vulnerability for their economies. If you talk about broadening and deepening your capital, opening to international capital flows is implicit in that conclusion. The question is whether the Fund can play a very active, supportive role in that process. I think the answer is yes, but I think that the

Asian countries in particular will be looking more than ever, and are already looking more than ever, to the Fund for guidance and support in this market deepening and broadening. And Japan, of course, as the Chairman pointed out, has gone forward with its "big bang" which also has important elements of additional capital market opening. Now, we already, to some extent, have an advocacy role because there is a consensus, I think, among the member governments.

On the question of jurisdiction, the reason I react so strongly to the jurisdiction issue is threefold. First of all, I don't think that an institution that provides tens of billions of dollars of financing should be limited to an advocacy role. The OECD has an advocacy role, but it doesn't provide financing to its members, and I very much doubt whether any of its members would give it a financing role without some counterpart on obligations on the part of members. I think it is inherent in the nature of this institution's financing role that obligations are part of the package generally.

Second of all, Jacques Polack argued that the Fund had considerable success in promoting current account liberalization without really exercising its jurisdiction. But one doesn't know what the effect of the Article XIV provision had on the process and the thinking of governments as they opened. But I actually think the whole opening issue is really less important than the closing issue. Markets will take care of market opening. That is already going to happen. Countries will seek to open and attract capital because it fosters investment and growth. The real concern for this institution for the members is what happens in a crisis, and the biggest threat to financial market stability is the risk of disorderly reversal of market opening. If you think about Indonesia, there were very strong rumors in the markets that Indonesia was going to declare a unilateral moratorium and impose sweeping capital and exchange controls, and that created enormous market pressure throughout Asia until there was clarification and some reassurance that the Fund's presence and relationship with Indonesia was stabilizing and that the Indonesian authorities were backing away from that option. The situation was extremely volatile, not only for Indonesia, but also for the whole region and potentially for other emerging markets outside Asia.

In this case, our influence and our financing role weighed and prevented that from happening. It is quite possible that a country that had not depleted its foreign exchange resources and would not, for whatever reason, want IMF financing would choose the option of unilateral exchange restrictions. The implications of a country doing that, a large emerging market or any other country doing that, the consequences are very unpredictable, but there is a very high risk that it would trigger extreme financial market volatility for lots of other countries, unrelated. If the Fund doesn't have clear jurisdiction to say, "No, that is a violation of your obligations to reverse course," I think we are greatly weakened in our role of fostering a stable, orderly market opening that is maintained in an orderly way. That is not to say that we think that the option of exchange controls in extreme circumstances should be foreclosed, but it is that it should be done under the umbrella of an international IMF agreement, a consensus among members that it makes sense,

that there is an orderly process and that it is the orderly process that is the key to minimizing international market and financial volatility and damage. There is a process. There is a way of reaching agreement and consensus by which you can get international support, financial or otherwise. That is really the key issue on jurisdiction.

I agree that we don't need to settle this issue and apparently a number of members want to reopen the issue of jurisdiction, which I think is a terrible idea, but so be it. As everyone says, everyone is right. I don't think we need—obviously, we can't settle the issue today. I don't think we need to settle it before the Interim Committee. I agree absolutely with Mr. Sivaraman that there is real value—I think it is very important that we show forward movement toward an amendment. I think we can reach an agreement on language on the first part of an amendment with regard to purposes, Article I. I hope we can reach agreement on language today; go forward with language, as I said in the informal discussion to the Board, saying we have to make progress, there are lots of outstanding issues, members want to reconsider some aspects of this exercise, but at least we have gone this far, this is the first part of an amendment that we hope to reach agreement on down the road. At least to keep moving forward rather than signaling to the world that we are moving backward—that is where I am afraid we may be heading. I think the new draft that Mr. Gianviti circulated is an improvement from what was initially—the language initially proposed for the reasons Mr. Kiekens articulated the other day. The one change I would make in the new draft text on paragraph 4 is to leave in the language which says, “exchange restrictions which hamper the growth of world trade.” I would leave that, and just add the words “and investment.” What we are trying to do is stimulate increased world trade and investment. That is how you increase global prosperity.

Mr. Eyzaguirre agreed with Ms. Lissakers on the dangers posed by any member unilaterally backsliding on capital market liberalization, but he also considered that all the major financial crises of the past 20–25 years had resulted from premature liberalization. The amendments to the Articles would have to balance both threats.

The Chairman and the General Counsel agreed with Ms. Lissakers' suggestion that the new language of paragraph 4 should include the phrase “...exchange restrictions which hamper the growth of world trade and investment.”

Mr. Toribio made the following statement:

The summary prepared by the Secretary's Department reflects the main issues raised at the recent seminar on capital account liberalization. I was curious about how this summary was going to be prepared, as it must have been difficult to capture the variety of statements made by over 30 speakers. But the Secretary's Department has done a fine job, and nothing useful could be achieved by trying to amend the summary. However, we still face the question of where the seminar has left us in our efforts to comply with the Interim Committee's mandate. At the risk of repeating my remarks of two days ago, I would like to express my personal position on the subject.

We should do whatever is necessary to agree on the principles which will guide the Fund in the promotion of an orderly liberalization of international capital movements. We are not yet required to produce details on how those principles should be applied in practice. But we should outline what those principles should be. I suggest the following:

Principle No. 1: the recognition of an orderly liberalization of international capital movements as one of the purposes and objectives of the Fund. That would be the principle of advocacy.

Principle No. 2: the capacity of the Fund to play a central role in such an undertaking. We could call this principle jurisdiction, or use another term that sounds more cooperative.

Principle No. 3: recognition that such jurisdiction is not unqualified. The Fund would have to take into account the existence of transitional arrangements, the norms of prudence in the removal of existing restrictions, and the need to follow an appropriate sequence in the transition toward full liberalization.

Principle No. 4: acceptance that economic necessity might require the reintroduction of capital restrictions, which implies the need for flexible approval policies.

Principle No. 5: exclusion of those restrictions necessary for reasons of national security, national interest, or for prudential regulation of financial markets and institutions. The conceptual boundary line of such measures is something we could decide later.

Those five basic principles can be incorporated into the concrete text of an amendment to the Articles of Agreement. The Articles, as a written constitution, deal with questions of principle and do not claim to encompass all the details of our day-to-day business. If we were able to incorporate the broad principles into the Articles of Agreement, it would be easier to progress in the discussion of details. I invite all my colleagues, therefore, to follow this suggested course of action. Perhaps the text proposed by the Managing Director serves such a purpose adequately, or maybe we could discuss the concrete language used, but I propose that the language be used as a way to incorporate these principles into the Articles of Agreement. I realize that there is some disagreement. Many members agree with the principles, but some believe that an amendment of the Articles to give the Fund any jurisdiction, however qualified, is such an important measure that the stated principles must be accompanied by detailed operational criteria. Until we have agreed on those details, it has been argued, we should refrain from amending the Articles. Again, this is not my view.

Even within my Chair, not all members agree on what the accepted general principles should be. We are close to agreement on the first principle,

which corresponds to an advocacy approach. But it is uncertain as to how widely the remaining four principles have been accepted. This being the case, perhaps we should report to the Interim Committee that we have only reached a partial agreement, as Mr. Sivaraman suggested, and that more time will be needed before a comprehensive amendment to the Articles of Agreement is proposed. That would be regrettable, as we would have wasted a wonderful opportunity to move further ahead, but it may be necessary.

Mr. Kiekens made the following statement:

The Hong Kong statement of the Interim Committee on the Liberalization of Capital Movements Under an Amendment of the Articles remains valid.

With the benefit of the results of the seminar on this subject, well captured in the staff's summary report, the Board should give priority to satisfying the Interim Committee's request "to complete its work on the proposed amendment of the Fund's articles." This amendment will have to deal with the three aspects of the Fund's task as it relates to international capital movements: a) the promotion of free capital movements through policy advice and technical assistance; b) the financial assistance for countries with temporary balance of payments needs, including those stemming from international capital movements; and c) jurisdiction for the Fund to approve new, temporary restrictions of international capital movements. These three components should all be part and parcel of the amendment. I will comment briefly on each.

The Fund's Task of Promoting the Free International Movement of Capital

The Board has reviewed the economic arguments in favor of free international capital movements. It has also reached a good understanding on what progress with macroeconomic stability and structural reforms, particularly in the financial sector, is necessary for an orderly liberalization of international capital movements. Paragraphs 1 and 2 of the Hong Kong statement are a good summary of a solid consensus. Changing Article I of the Fund's charter to include among the purposes of the Fund the promotion of orderly liberalization of international capital movements is now more an issue of legislative technique than of political consensus building. It would be preferable to draft the amendment in the certain knowledge that the Fund will have jurisdiction over capital movements. But if the Board desires to show the Interim Committee that it has begun implementing the Hong Kong mandate, it would not be impossible to make a preliminary draft amendment for Article I now. But I would like to express four caveats: first, it is politically unrealistic to submit for the approval of the Board of Governors and the legislatures of member countries only an amendment for Article I by itself, before finalizing all the other changes to the Articles of Agreement in connection with free international capital movements. Second, until these other changes have been finalized, the draft amendment for Article I remains preliminary. Third, I expect that the Interim Committee will confirm the mandate it gave the Board in Hong Kong to complete the text of the amendment. And fourth, the endorsement by

the Interim Committee of such a preliminary draft must not be considered as a de facto change in the Articles of Agreement. I will comment only briefly on the amendment proposed for Article I.

I observe that the purposes of Article I exist on both the level of general objectives and the level of operational tasks, without explicitly distinguishing between them. I do not suggest that we rewrite Article I for this reason, but these flaws make good legislative work more difficult.

It was not desirable to amend Article I (ii), as proposed by the Managing Director in his statement, since it assigns the same importance to the promotion of orderly international capital movements as to facilitating the expansion of international trade. Unlike trade flows, which are in the province of the WTO, financial flows are at the center of the Fund's mandate. However, I can agree with the new proposal circulated at the outset of this meeting, which would limit Article I (ii) to the objectives of facilitating international trade and efficient international allocation of capital that the Fund must pursue by assisting in the establishment of a multilateral system of payments in respect of current and capital transactions.

The proposed text for Article I (iv) is acceptable, even if it is not yet certain that the Fund will have similar instruments, in particular jurisdiction to promote the opening of current and capital accounts in countries' external balance of payments. I would, however, like to suggest putting the assistance in the orderly liberalization of international capital movements at the beginning of the paragraph, rather than at the end as proposed by the Managing Director. It is a normal sequence to deal first with the liberalization of the underlying transaction before dealing with the liberalization of payments connected with such transactions.

The Fund's Financial Assistance in Case of Balance of Payments Needs Stemming from International Capital Movements

Article VI should be amended to permit the Fund to finance, with adequate safeguards, temporary balance of payments deficits stemming from capital movements. Such safeguards may include having the Fund request, as a condition of its financial support, that the borrowing country temporarily restrict certain international capital movements. Such restrictions may also enable, in very exceptional circumstances, a temporary suspension of a country's external debt payments. To make such a suspension a basis for an orderly adjustment of the country's external debt, it needs standing in the international legal order, which can be conferred by extending the Fund's jurisdiction to international capital movements.

The Fund's Jurisdiction with Respect to International Capital Movements

Should the Fund have jurisdiction over international capital movements? Should this jurisdiction be limited to the approval of new, temporary restrictions, or should it also include the right of injunction to

liberalize capital movements that are until then restricted? To answer these questions, we need an understanding of the distinction between the objectives of the Fund's formal jurisdiction and those of its promotion of free capital movements with policy advice and technical assistance.

It is an important function of the Fund's jurisdiction to give providers of international capital protection against new arbitrary restrictions or other harmful restrictions that could have been averted by cooperation with the Fund. The assurance to the financial markets that a country, once it has liberalized its capital flows, can introduce new restrictions only with the approval of the Fund and only if they are temporary and nondiscriminatory, will strengthen creditors' confidence, deepen financial flows, make them more stable, and—*ceteris paribus*—reduce their cost to the recipient countries.

The second objective of the Fund's jurisdiction is to provide a legal basis for organizing, in very exceptional cases, a temporary moratorium on a country's external public and private debt. Such a moratorium enables creditors and debtors to arrange an orderly adjustment of their relations. Such an orderly workout is beneficial for both creditor and debtor countries. It permits the latter to implement a far-reaching adjustment under conditions that are less detrimental for its own economy and thus for those of its trading partners. It also benefits the creditors, since it ensures that all will be more equally treated. This lowers, *ceteris paribus*, the risk and cost of international credits generally.

To make the Fund's jurisdiction equally applicable to all member countries requires that the Articles of Agreement, and the Fund's decisions taken in accord with them, being international law, should take precedence over national legislation or regulation. In other words, exchange restrictions that are inconsistent with the Fund's Articles of Agreement should be unenforceable in the country that enacted them, while on the other hand, restrictions that are in accordance with the international order should be recognized and upheld by the legal systems of all Fund members. The primacy of international law over national law is recognized by the courts of several countries, but is not yet generally accepted by all. Making progress on this issue will require a frank exchange of views. Such progress is the key to ensuring that the broadening of the Fund's jurisdiction to capital movements will have the beneficial effects that I enumerated earlier.

Having discussed the arguments in favor of extending the Fund's jurisdiction, I will now turn to some points contained in the Managing Director's outline of the amendment.

I observe that in point 2(a) of the outline, the Managing Director does not mention the possibility for the Fund to make representations to a member that it should remove restrictions maintained under the transitional provisions. I agree with this omission. The Fund never used this right in connection with restrictions for current transactions. More importantly, as I see them, the primary objectives of Fund jurisdiction are to protect creditors against arbitrary and harmful new restrictions detrimental to the functioning of international

financial markets. On the question of when and how fast to liberalize capital movements, countries should have the benefit of the Fund's advice and technical assistance, but their decision to liberalize should be taken freely and not required as a legal obligation. Mr. Polak's doubts about the usefulness of the Fund's jurisdiction may be related to the Fund's representation rights, under Article XIV (iii), that relate to the process of removing unnecessary, ineffective, or counterproductive restrictions. I observe, however, that Mr. Polak did not discuss—or should I say, did not question—the usefulness of the Fund's approval policy, which should be the heart of the Fund's jurisdiction.

Finally, I agree that the consistency of an exchange restriction with the Fund's rules does not exempt a member from its obligations under any other international treaty. But I would like to specify that this principle only applies to obligations to liberalize, not obligations to restrict, movements of capital. Let me illustrate the point with two examples. Future new members of the European Union that would still retain restrictions that are consistent with the Fund's Articles could be obliged to remove them anyway under the accession treaty. This illustrates the principle mentioned in the Managing Director's statement. My second example has to do with a case where the European Council would decide to introduce capital restrictions. Such a decision would not excuse an EU member from obtaining Fund approval before introducing those restrictions.

Introducing Fund jurisdiction with respect to capital movements will affect European Community prerogatives just as it would affect the prerogatives of individual members. Before agreeing with such an amendment, the member states of the European Union will have to comply with rules under European Community law before they can agree with an amendment of the Articles of Agreement that affects Community prerogatives. But this is an issue of internal relations among EU member states that should not be discussed further in this forum.

Extending his remarks, Mr. Kiekens said that any proposed amendments would have to deal with three issues: the promotion of liberalization via policy advice and technical assistance; financial support for those countries with balance of payments needs, including those resulting from international capital movements; and the jurisdiction of the Fund to approve temporary capital restrictions.

On the promotion of liberalized capital movements, the underlying principle had been broadly accepted, and it was now simply a matter of drafting the appropriate language, Mr. Kiekens continued. The currently proposed language, as amended, was acceptable. However, it was politically unrealistic to submit to the Governors an amendment of Article I before the other changes to the Articles had been settled. Further, until those additional changes had been finalized, the draft language for Article I should be treated as preliminary. Finally, endorsement of the preliminary draft of Article I by the Interim Committee should not be taken as a de facto change in the Articles of Agreement.

On the Fund's financial support for countries with balance of payments problems, Article VI should be amended to permit the financing of temporary balance of payments

deficits resulting from international capital movements, Mr. Kiekens remarked. Such support would require safeguards, including perhaps a condition that the borrowing country temporarily restrict capital movements. Those restrictions might, in exceptional circumstances, include the temporary suspension of a country's debt payments. However, to allow such a suspension of payments to form the basis of an orderly adjustment of the country's debt, it would need international legal standing. Such a standing could be conferred by extending the Fund's jurisdiction to international capital movements.

The extension of the Fund's jurisdiction might have two objectives, Mr. Kiekens commented. The first objective would be to protect providers of international capital against arbitrary or harmful restrictions. Such protection would benefit both providers and recipients. The second objective would be to provide a legal basis for temporary moratoria on countries' external public and private debt. Such moratoria would allow a more orderly adjustment of relations between debtors and creditors, and again would benefit both providers and recipients of international credit. Ensuring that the Fund's jurisdiction was equally applicable to all members would require that the Articles of Agreement, and the decisions taking in accordance with those Articles, be recognized as international law, and that they take precedence over national legislation or regulation. The primacy of international law over national law had been recognized by the courts of several countries, but was not yet accepted by all. Progress on that issue would require a frank exchange of views, but would be essential for the full benefits of jurisdiction to be realized.

On point 2(a) of the Managing Director's outline, no mention had been made of the Fund representing to members that they should remove restrictions maintained under transitional provisions, Mr. Kiekens remarked. That omission had been appropriate, as the Fund had never formally used this right in connection with restrictions for current transactions. More importantly, the main purpose of extended jurisdiction was to protect creditors from arbitrary or harmful new restrictions, so, as Ms. Lissakers had suggested, it was proper that greater attention be given to preventing a disorderly reversal of capital liberalization, rather than emphasizing the Fund's role in pressing for further liberalization. Countries wanting to liberalize should have the benefit of the Fund's advice and technical assistance, but their decision to liberalize should be taken freely and not required as a legal obligation. Mr. Polak's reservations on the usefulness of the Fund's jurisdiction arguably had been related to the Fund's representation rights under Article XIV (iii). However, he had not appeared to question the usefulness of the Fund's ability to approve or disapprove current account restrictions, and it was this element of jurisdiction that was needed for capital account liberalization.

Mr. Toribio agreed with Mr. Kiekens' remarks and added that jurisdiction did not just benefit individual creditors or debtors, but also benefited the international financial system as a whole—just as Fund efforts to promote trade and current account liberalization had benefited the international trading system as a whole.

Mr. Yoshimura made the following statement:

The Chairman has asked about the relationship between Japan's financial market deregulation—the “big bang”—and our position on capital account liberalization. The position of the Japanese authorities has not changed. We strongly support an orderly liberalization of capital movements, and we have emphasized that the pace and sequencing of liberalization for each

country should be carefully considered on a case-by-case basis. For Japan, rapid and decisive liberalization of our financial markets will benefit not only the Japanese economy, but also the economies of the region and the world. However, the pace and sequencing of capital account liberalization for other member countries should be considered with regard to their own specific circumstances. We can learn a lot from the recent experience in Asia. Ms. Lissakers has remarked that those countries seriously affected by the Asian crisis are now rapidly liberalizing their financial markets. That is correct, and I think it is appropriate for them to do so. She also pointed out that imposing exchange or capital controls during a crisis would not be effective and might have an adverse impact. I take that point also. So, what we have learned from the Asian experience is that during a serious crisis, capital or exchange restrictions may not work. On the other hand, in order to prevent such a crisis in the first place, we might want to investigate further how such capital or exchange controls could prove effective. We might also consider the prudential measures implemented in the Chilean case. We can learn a lot from the Asian countries' experiences and from those of other emerging countries.

On the issue of how we should proceed with the amendment, we cannot agree on the amendment of Article I before knowing the results of the Board's discussion on jurisdiction. As I said on Tuesday, this is not an option we could ask our Parliament to accept. It would be premature to try to reach agreement on the amended language of Article I by the time of the spring meeting, before we discuss the issue of jurisdiction. And even if we delay submitting the amended Articles to our Parliament until we have agreed on both the issues of the Fund's purposes and jurisdiction, it would be difficult to convince Parliament and the other relevant government agencies to agree to the language of Article I without their knowing the details of the Fund's likely jurisdiction. Furthermore, having agreed on the new language of Article I, there is still a possibility that different wording would be more appropriate, depending on the discussions on jurisdiction. In any event, our position is that we should continue to have a full range of discussions on both the purposes and jurisdiction of the Fund. And we should be able to submit a report to the Interim Committee that does not refer to the wording of Article I. No one could blame the Board for not providing the new wording of Article I at the forthcoming Interim Committee meeting, given the dramatic developments in Asia after the Annual Meeting in Hong Kong.

On the Managing Director's statement on jurisdiction, and on the treatment of inward direct investment in particular, our stance is unchanged. Members should have the right to impose restrictions on inward direct investment, and those restrictions should only be subject to challenge by the Fund when they are considered to be for balance of payments or macroeconomic reasons. In our view, expanding jurisdiction is such an important issue that it requires a significant amendment of the Articles.

The Chairman remarked that the Board would be blamed if it did not produce at least an outline text for one of the amendments in time for the upcoming Interim Committee meeting.

Mr. Donecker replied that such blame might not be forthcoming, as all Fund members were well aware of the discussions in the Board, as well as the many urgent issues which had preoccupied the Board recently. He agreed with Mr. Yoshimura that the Board would need to present a package containing a proposed text for the issues of both jurisdiction and advocacy, and that members would understand the difficulty in reaching a comprehensive agreement. The Board's report should state that tentative agreement had been reached on Article I, but that the language might change depending on further discussions.

Mr. Milleron made the following statement:

Other things were said very eloquently, so I will try to summarize and be brief. Following are three propositions.

Proposition one: it seems to me that it would be foolish not to present a significant first step, so I quite agree with what my German colleague just said—the idea that something could be presented as a tentative text—but it has to be significant.

Proposition two: it would be very dangerous to modify Article I and to postpone all new steps to an uncertain future. It seems to me that the idea that we are working on a package—and it has to be taken as such—has to be taken on board.

Proposition three: we certainly have to refocus our work on issues that recent experience tends to confirm as essential. I emphasize the word “confirm” as crucial, which means a better understanding of the conditions under which capital accounts are going to be open. In particular, it seems to me that regulation of short-term capital flows deserves to be addressed. It is a serious issue. It is not only a technical point; it is a serious policy issue.

But there should not be any ambiguity about our collective willingness to proceed. I therefore support your proposal, Mr. Chairman. It is important to announce as early as April our consensus in favor of an enlargement of the scope of Article I; and certainly we should submit to the Interim Committee the issues that the Fund wants to discuss in depth before proposing specific amendments which it considers useful to serve its new purpose.

Mr. O'Donnell agreed with the comments of Ms. Lissakers and others on the importance of capital account liberalization. On the negative side, sudden restrictions on capital flows impose an externality on other countries, particularly those in the same region. The “public good aspect” of capital account issues meant that international supervision was required, and the Fund was the obvious candidate for such a task. On the positive side, while liberalization might bring benefits to a particular country, the actual process of opening the capital account was often difficult. In such cases, the Fund should have an advisory role.

On the Fund's philosophy, it should be “bold in vision and courageous in implementation,” Mr. O'Donnell remarked. A bold vision required the Board to demonstrate that it was making clear progress. Observers and market participants at the next Interim Committee meeting would be looking at the communiqué from the previous meeting. They would want to know what the Board had done, and they would expect a clear step forward.

The proposal to put forward provisional language for Article I was sensible, and the proposed text as amended was appropriate. Such language would go a long way to meet expectations, and the Board would be blamed if it was not forthcoming with a concrete example of its progress.

On implementation, it was essential that the Fund have extended jurisdiction, Mr. O'Donnell asserted. However, it was clear that other members had significant reservations, so the issue would have to be discussed in some detail. Much had been learned over the past few months, but he remarked that nothing had occurred that would change his position. On the contrary, the Asian crisis had provided fresh evidence of the need to extend the Fund's jurisdiction over capital account issues.

A final point of concern, Mr. O'Donnell noted, was the possible impact on the Fund's credibility should it decide not to amend the Articles—such a decision might also call into question the current liberal interpretation of the existing Articles, which had served the international community so well during the Asian crisis.

Mr. Al-Turki made the following statement:

As this chair has noted in the past, the Fund already has an implicit responsibility for a variety of capital account issues by virtue of its mandate to oversee the international monetary system. The Fund is the most naturally suited international organization to oversee capital account transactions.

Having said that, it is clear that there are many complex issues that we still need to understand fully and reach a consensus on. The seminar on capital account convertibility highlighted conceptual differences on these issues. Mr. Bernes also detailed specific examples of thorny areas during the informal meeting on Tuesday.

The meeting on Tuesday also underscored, however, important areas of agreement. Indeed, there is a broad consensus on including liberalization of capital movements in the Fund's purposes. There is also broad agreement that work is still needed to address a number of critical issues before amending the Articles to give the Fund jurisdiction over capital movements.

These areas of agreement could form the basis for a general and brief report to the Interim Committee. The report could stress the consensus to include the liberalization of capital movements in the Fund's purposes. While I see no pressing need or benefit to include the specific drafting of Article I at this stage, I am flexible on this subject and can go along with Mr. Sivaraman's suggestion. The report could also emphasize that the Board would work diligently to resolve all remaining issues and move toward an amendment that gives the Fund jurisdiction. Here, it would be helpful if we could have after the Interim Committee meeting a new road map for future work on this topic.

Mr. Han emphasized the need to send a clear message that a liberal system of capital movements was important to the well-being of the international monetary system; amending the Articles would send that message and would underscore that the Fund would be intimately involved in the process of capital account liberalization. Given the apparent differences in

opinion regarding jurisdiction, the two-stage approach suggested by Mr. Bernes was appropriate.

On the specific language of Article I, Mr. Han commented that the General Counsel's alteration of Article I (iv) implied an overly broad coverage of all possible foreign exchange restrictions. He suggested that the deleted phrase be retained and modified along the lines suggested by Ms. Lissakers, so that the Article would read: "...elimination of foreign exchange restrictions which hamper the growth of world trade and international capital movements."

On the principles guiding the extension of the Fund's jurisdiction, Mr. Han remarked that no consensus had been reached on a number of key issues, such as the treatment of inward foreign direct investment. It was therefore premature to report to the Interim Committee on the principles that would guide future draft language, as those principles had not yet been settled. On the coverage of the Fund's jurisdiction, the inclusion of inward direct investment was not appropriate, as such jurisdiction might conflict with national security or sovereignty concerns or with treaties with other institutions. Finally, capital movements would have to be clearly and carefully defined; they should not include more fundamental capital transactions, and only the residence of the parties should be used to determine whether a transaction was international.

Mr. Palmason made the following statement:

In spite of the Asian crisis, and in spite of the outcome of the CAPLIB Seminar, this chair continues to believe in orderly capital liberalization.

To that effect, and in the spirit of the Interim Committee communiqué, we support a broad mandate: an amendment of the Articles to explicitly make liberalization of capital movements one of the purposes of the Fund and, as needed, extend the Fund's jurisdiction. Hence, we ought not to make a choice between advocacy or jurisdiction. The Fund can best achieve the goal of promoting capital account liberalization through advocacy and jurisdiction, supporting the former with the strength of the latter.

The Managing Director's statement is a logical continuation of the work in progress, and it can serve as a basis for a reasonable compromise between the various shades of gray on this issue. It strikes a fair balance between the key concepts in the Interim Committee statement: bold vision and cautious implementation.

This brings me to five observations about the seminar, which I believe are relevant to today's discussion:

First, on economic efficiency vs. capital controls. I liked Summers' metaphor that the emergence of modern financial markets is like the invention of the jet airplane: global financial markets let us go where we want more quickly, more comfortably, and, most of the time, more safely, although crashes occur. However, it does not prove the case for capital controls but for systems to ensure that money moves in the right direction. In contrast, I found less convincing the Stiglitz metaphor that, although an ill-repaired boat is more likely to sink, the force of powerful waves can cause even a perfectly sound

vessel to founder, particularly smaller ones. Hence, short-term capital controls are called for. The problem with this analogy is that capital controls won't help anyone sail to where they need to go. Controls won't make the big waves smaller nor will they make the small boats bigger. In fact, it is not the boat's size that determines its ability to sail on the ocean. Rowboats have made it across the Atlantic but the Titanic sank. It is all up to the captain, but he needs clear rules for navigation.

Second, advocacy vs. jurisdiction. Mr. Polak's argument that giving the Fund formal jurisdiction over capital controls would be neither necessary nor helpful was rather puzzling. He claimed that, in light of the experience on the removal of restrictions on current payments, where the Fund, in practice, had relied on suasion and never used its power to make representations to any member, was evidence against jurisdiction. But based on the same evidence, one could alternatively conclude that the Fund's tradition called for advocacy in pursuing its agenda, while jurisdiction gave it authority to pursue the issue over time. To that effect, the mere existence of Article VIII, and persistent advocacy over time, is a synergy that has generated near global liberalization of payment regimes. Hence, I found Mr. Guitián's argument more convincing, that advocacy without a commitment carries little conviction.

Third, inward direct investment. Dallara of the Institute of International Finance made the point that inward direct investment was a better way of balancing capital flows than the practice of short-term controls. He might have struck a very relevant note here, and I take it as a warning against leaving IDI out of the picture. In order to achieve the objective of facilitating orderly capital liberalization, it is important not to limit the jurisdiction with respect to IDI to the extent that it undermines the Fund's purposes. I hope the Managing Director's proposal does not go too far in that direction.

Fourth, on the battle for turf, Hartgidge of the WTO stated that liberalization of capital flows was not an objective of the WTO, and the WTO sought no jurisdiction over the matter. This would seem to contradict earlier arguments in the Board that the WTO was a viable alternative to the Fund. Moreover, I could not detect from the other speakers representing existing international agreements and initiatives that there was an overwhelming problem of overlap. Although it is clear that the Fund should take into consideration the progress made in other organizations and agreements, and complement rather than duplicate the work in other fora, I wonder if we are being a little quixotic on this issue.

And finally, on preconditions for capital liberalization. Although I recognize the importance of preconditions, I also subscribe to the view that appropriate sequencing should not mean that the liberalization of capital movements should wait for all reform to be completed. There is a reasonable call for preconditions to go hand in hand with the liberalization process. In economics, as in life, there is no reward without risk.

Mr. Dairi made the following statement:

Without prejudice to our authorities' final position, we support the two-stage approach to capital account liberalization, as suggested by Mr. Bernes. In this context, we support the inclusion of capital account liberalization in Fund purposes and would like that the report to the Interim Committee allude to the necessary changes in the language of Article VI to refer to financing for balance of payments needs.

To be ready to make a recommendation to our authorities regarding the jurisdictional question, we need answers to the following questions:

What will be the exact domain of the jurisdiction and what items will be included? How are prudential regulations to be delineated from restrictions? What are the specifics of the transitional arrangements and approval of policies? And how can we amend Article VIII to allow for an orderly debt workout?

These issues need further extensive discussion, and we agree with Mr. Han that it is premature to report to the Interim Committee on the key principles that would guide the drafting of the relevant amendment.

Mr. Grilli emphasized the urgency of introducing a greater degree of clarity and structure to the Fund's role in capital account liberalization, and he noted that there was a considerable risk of losing momentum. The outline of the amendment to Article I should be presented to the Interim Committee as tentative. Further, Mr. Palmason and others had been correct in arguing that the distinction between advocacy and jurisdiction was unnecessary. Jurisdiction was essential in itself, but it was also crucial to make advocacy more effective—the experience with current account liberalization had shown that the Fund's advocacy was effective precisely because it was backed by jurisdiction. The provisional draft amendment to Article I, with additions suggested by Mr. Kiekens, was appropriate. It was also important to consider modifications to Article VI.

Mr. Kafka made the following statement:

Mr. O'Brien had drafted a statement when it was thought that we were going to discuss the seminar at this meeting, and I would like to enter that statement into the record. We need to discuss the results of that seminar carefully, as it is important in helping us formulate our approach to capital account liberalization.

We would like to thank the Managing Director for his statement and for suggestions on a possible amendment to the Articles. The question remains as to whether we actually need an amendment. Our belief is that such an amendment is unnecessary, but we would not oppose it if there were an appropriate majority in its favor, as long as it did not go beyond the inclusion of capital account liberalization among the purposes of the Fund. In other words, we do not agree that there is a need for Fund jurisdiction over capital account restrictions, and I refer the Board to Mr. Polak's recent paper.

On the Managing Director's formulation of a possible amendment covering jurisdiction, the exceptions to the general prohibition on capital account restrictions do not appear to be sufficient. The first exemption—the ability to maintain, and adapt to changing circumstances, restrictions existing at the time of the amendment—does not make clear whether a country which subsequently removes its restrictions has the right to reimpose them. Many members may be sensitive to constraints on their capital account behavior, relative to similar constraints affecting the current account.

The second exception—the right to impose restrictions on inward direct investment—is also unsatisfactory, as the Board of Governors may still remove it subject to an 85 percent majority. Restrictions on inward direct investment can serve numerous essential purposes, and we would like the freedom to impose such restrictions should they prove necessary. Furthermore, it was my understanding that the informal meeting revealed broad support for including liberalization among the Fund's purposes, but that no firm agreement on extending the Fund's jurisdiction had been reached. I would like to add my voice to those who have argued that no decision should be reached without ample discussion based on a detailed staff paper.

Another important question is how to make the distinction between controls and regulation on the one hand and prudential measures on the other. Prudential measures should not be subject to the Fund's jurisdiction. A more general question is how to deal with the preservation of sovereignty when discussing capital account restrictions.

In conclusion, we would not object to making capital account liberalization a purpose of the Fund or to the promotion of capital account liberalization via advocacy. Although we do not agree that the Fund should be given jurisdiction over capital movements, we would be willing to bow to the majority, but only if the decision was subject to a series of conditions, including appropriate financing and transitional arrangements. Capital controls should be defined to exclude prudential regulations and national security measures.

Mrs. van Geest remarked that her authorities had always been in favor of extended jurisdiction, and that this was still the case. Capital account transactions would soon become subject to an increasing array of bilateral or regional treaties, and those treaties should be shaped by an overall framework. The Fund was the ideal institution to provide that framework.

It had been noted that some countries had been too hasty in liberalizing their capital markets, Mrs. van Geest continued. That was true, but one of the purposes of amending the Articles was to prompt countries to consult with the Fund so as to help them avoid any potential pitfalls. Many countries, on the other hand, were too cautious. If they were confident that they would be able to reinstate restrictions in an orderly manner when needed, they might be more courageous—that was an instance where jurisdiction would bolster the Fund's advocacy efforts.

The Asian crisis, from a longer-term point of view, had underscored the benefits of capital account liberalization, Mrs. van Geest remarked. The crisis had not given any cause to doubt the need for jurisdiction, but it did highlight the need for a more carefully considered, properly balanced approach to liberalization.

The Board should not give the international community the impression that it was moving backward or that it was in any doubt on whether capital account liberalization was desirable, Mrs. van Geest said. Mr. Donecker's suggestion of proposing a preliminary text for Article I was sound.

Mr. Donecker remarked that, while he agreed with the new draft language, he would have preferred the issue of liberalization treated as one package, including both advocacy and jurisdiction. It would also have been preferable to be able to present the appropriate amendments as one package for parliamentary approval. The agreement on the changes to Article I were only tentative, and that should be made clear in the Managing Director's report to the Interim Committee.

On the Managing Director's draft outline for treatment of inward direct investment, Mr. Donecker continued, the staff's proposal (that effective influence not be explicitly defined in the text of the amendment) was acceptable. Also acceptable was the proposal that the Fund be given the authority to implement the provision through a general decision requiring a special majority. However, in the absence of such a decision, each member would determine for itself what constituted effective influence for the purposes of the Articles' treatment of direct investment. That would potentially allow members to exclude portfolio investment from the Fund's jurisdiction as well. Such a loophole would not be acceptable, so support for the substance of paragraph 2(b) of the Managing Director's outline would depend on a satisfactory solution of that problem.

On the Fund's approval policies, as mentioned in paragraph 4, Mr. Donecker agreed that the features of those policies need not be set forth in the text of the amendment itself. However, it was expected that the Board would have agreed upon those features by the time the amended text is presented to the Board of Governors. Approval by the Governors might depend on the details of such approval policies, so the text and agreed policies should be presented as one package. Therefore paragraph 4 of the outline, which only called for agreement before the amendment would have taken effect, should be changed or deleted.

Further clarification was required as to whether the Fund would be still able to request the imposition of capital restrictions in cases where the country is bound by other treaty obligations, Mr. Donecker remarked. Also, clarification was needed as to the compatibility of the amended text with the existing obligations of European Union members.

Responding to a question from Mr. Donecker, the Acting Chairman confirmed that the outline had initially been intended for Board approval and then for endorsement by the Interim Committee. In light of recent discussion, however, it appeared that Executive Directors wished to consider further the language of Article I. On the basis of the concluding remarks of the discussion and any agreed language of Article I, the Managing Director would report to the Interim Committee. Directors were invited to comment on other parts of the outline.

Mr. Cippà remarked that it was unfortunate that the Board had not had sufficient time to carry out the discussion that had been scheduled on the work program. However, it was

important that the Fund give a clear signal of its resolve to move ahead on capital account liberalization, so the Board should present the Interim Committee with a proposal for modification of Article I. It was also important to make clear, however, that the extent and scope of jurisdiction was still being actively discussed. Further, the Board of Governors should not be presented with any amendments that do not include the whole package, and until that time, the proposed language of Article I should be treated as preliminary.

Mr. Barro Chambrier made the following statement:

First, on the Managing Director's statement on this important issue, I can agree, in principle, to amend the Fund's Articles so as to enable this institution to cover capital movements. This is important to promote the orderly liberalization of capital movements, consistent with the Fund's role in the international monetary system. Therefore, I can agree to a provisional or a tentative language proposed in Article I, in order to reflect the importance of capital movements in the international economy and the willingness of this Board to keep the momentum vis-à-vis our Governors' instructions.

On jurisdiction and other aspects, I think we need to proceed more cautiously, as there are still many issues that need to be clarified. This has been pointed out by the recent seminar hosted by the Fund on capital account liberalization. Also it seems to me that the proposed amendment of the Articles would lead the Fund to address a number of issues, in particular, regarding the relationship of the amendment with other international treaties, including the important outstanding questions related to the scope of the Fund's jurisdiction, the treatment of implicit discrimination, and the restrictions on inward direct investment. At this stage, I believe we have not yet completely drawn the lessons from the Asian crisis. Therefore, I can agree with other speakers that further elaboration will be needed in those areas before attempting to reach any agreement on the subject. Moreover, we need also to pay particular attention to the timing and the sequencing of the liberalization of capital movements. All these issues should be treated in the coming staff paper in a comprehensive way.

Mr. Shaalan emphasized that the Board would have to be extremely careful in choosing the wording of any report to the Interim Committee. If the report to the Interim Committee included proposed language for Article I, it should clearly indicate that the wording is preliminary. It would be premature to report anything specific on jurisdiction, as there had been no agreement, but the Committee should be informed that the Board was actively discussing the possible extent of jurisdiction. The two-step approach of Mr. Bernes, which did not rule out extended jurisdiction, was appropriate.

Mr. Taylor remarked that his conclusion from the seminar was that the Fund might be able to more effectively achieve capital liberalization without jurisdiction. This was a policy issue, not a legal one, and required an urgent policy discussion. Instead of the Managing Director's outline, the Interim Committee should be presented with a policy paper which highlighted the importance of capital liberalization and the need for appropriate prerequisite developments in individual countries, and which identified practical measures and advice. Such a report would not be backtracking, but would instead be a preferable way forward.

The proposal that an amended text for Article I be presented to the Interim Committee was acceptable, Mr. Taylor continued, as long as it did not outline a framework for jurisdiction, and as long as it made clear that the issue of jurisdiction was still under active discussion. It would be understandable if some members objected to the amendment of Article I at this stage, so it might be preferable to return to discussion of substantive policy issues.

Mr. Zamani made the following statement:

As is well known, four of the larger member countries in my constituency are affected quite adversely by the current crisis. The rest are also affected, but may be silently.

Let me point out, then, that notwithstanding the crisis, countries in my constituency remained committed to capital account liberalization, as rightly pointed out by Ms. Lissakers. The mood is certainly cautious and steps being taken should be orderly and properly sequenced. This too should be the case for the Fund as it proceeds with the exercise on capital account liberalization.

There is the need to move forward on this issue in our report to the Interim Committee. Not just in the spirit of compromise, but more to reflect the status of discussions at present. I can agree with the proposed tentative amendments to Article I. But we should state clearly to the Committee that there are many outstanding issues that need to be resolved and that amendments to other Articles are necessary to extend the Fund's jurisdiction. There is a lot more to be discussed and agreed upon here. This would then not preclude further amendment to Article I, Sections (ii) and (iv), should it be necessary to fine-tune it to changes in the other Articles.

On the proposed amendment to all and the relevant Articles, I prefer that amendments to the Articles be presented to the Board of Governors at one go.

Mr. Sivaraman supported the amended text of Article I and the proposal that the text be presented to the Interim Committee. It was important that the Committee and the Governors know that there was a broad consensus on the inclusion of capital liberalization as one of the purposes of the Fund. There was some public confusion on the root causes of the Asian crisis—many observers had blamed capital account liberalization itself, whereas a more sophisticated investigation should have focused instead on the presence of unbalanced liberalization. Such misconceptions had been gaining ground in many countries, and any apparent hesitation by the Board would only make things worse.

On the current issues of contention, Mr. Sivaraman continued, discussion had been dissipated by the inclusion of so many simultaneous issues in the staff's reports to the Board. While it was true that many issues were interrelated, perhaps the staff might consider presenting reports which concentrate on one or two issues only. Such an approach would focus the debate and might allow more rapid progress.

Mr. Mozhin remarked that it appeared that the Board had not made much progress since the Hong Kong meeting—the Asian crisis had taken up much of the Board's time and

had necessitated a pause in the discussion of capital liberalization, as it considered the implications of events as they unfolded. The seminar was a success and largely confirmed that, notwithstanding the recent events in Asia, the original approach of the Fund had been appropriate.

On the question of jurisdiction versus advocacy, Mr. Mozhin continued, arguments in favor of extended jurisdiction had some merit. However, the Board had not discussed jurisdictional matters in detail, and so there was little to report to the Interim Committee on the issue. The amended language of Article I was acceptable, but the Managing Director's outline was not, as the issues covered in that outline had not yet been discussed. There were problems with the language on inward direct investment, and the section on approval policies should recommend that language on the possibility of emergency restrictions be included in the amendment.

Mrs. Guti noted that the Asian crisis had not allowed the Board to return to the scheduled agenda of discussions, and so there were no firm positions on a wide range of issues. Therefore, while the Board should not lose momentum, there was still a danger of trying to move too quickly. The language of Article I was acceptable, and her authorities were open on the issue of extended jurisdiction—given the complexity of the issue, further discussion was necessary. It was important to emphasize the potential need for amendments to allow for the financing requirements that might follow capital account liberalization.

Mr. Daïri and Mr. Newman remarked that if the Board were to report on the redrafting of Article I, it would be necessary to also draft Article VI, as the Articles were closely linked. In particular, Article VI might have to be amended to remove any distinction between the financing of the current account and the financing of the capital account, referring instead to balance of payments financing in general.

Responding to reservations by Mr. Donecker and Mrs. Van Geest, who maintained that Article VI contained many financing and jurisdictional elements that had not yet been discussed, Mr. Daïri replied that capital liberalization could not be properly considered a purpose of the Fund if it maintained restrictions on Fund financing for the capital account. He therefore suggested that, in its report to the Interim Committee, the Board should note that several Directors saw the need to amend Article VI, even if no draft language had yet been discussed.

The General Counsel summarized the points that had been made on the draft language of Article I. Noting Mr. Han's and Ms. Lissakers' suggested amendments to Article I (iv), he remarked that the concepts of "international capital movements" and "investment" were not as broad as the concept of capital allocation that would be included in Article I (ii). Mr. Han's suggestion that Article I (iv) include the phrase "international capital movements" was problematic in that the orderly liberalization of international capital movements had been already included in the subsection.

The Acting Chairman suggested that the Board agree on the language of Article I, which would include Ms. Lissakers' proposed amendment to Article I (iv), so that the words "which hamper world trade and investment" would be retained. It was understood that the language was provisional and would be reviewed in light of further discussions.

After adjourning at 1:06 p.m., the meeting reconvened at 2:37 p.m.

The Acting Chairman brought the Board's attention to the new draft revised text of Article I, and confirmed that the Managing Director's report to the Interim Committee would be similar or identical to the concluding remarks of the day's discussion. As no agreement had been reached on the Managing Director's previous outline, it would not be sent to the Committee.

The Acting Chairman made the following concluding remarks:

At its meeting in Hong Kong last September, the Interim Committee invited us to complete our work on an amendment of the Articles that would make the liberalization of capital movements one of the purposes of the Fund, and extend, as needed, the Fund's jurisdiction through the establishment of carefully defined and consistently applied obligations regarding the liberalization of such movements.

Since then, the preoccupation of all of us—Board, management, and staff—with the financial crisis in Asia has slowed our work on detailed aspects of the amendment. As many of you have emphasized, the experience in Asia underscores the need to continue work on the amendment. Many of the considerations underlying this conclusion have been noted by Executive Directors today, as well as in our discussions on surveillance and the world economic outlook, and by many speakers at the very useful seminar held last month. These considerations include:

First, the Fund and its members face a world that is vastly different from the world of the 1940s, when our Articles, with their emphasis on the liberalization—and financing—of current account transactions, were conceived. The benefits for the world economy of an open and liberal system of capital movements are now widely recognized. Balance of payments difficulties associated with the capital account, although stemming from underlying policy issues, also dominate many of the problems we are dealing with today. This will no doubt be even more the case in the future. But there is a tension between the focus of the existing Articles and the realities we face that needs to be corrected.

Second, the increasing openness and integration of capital markets is being driven importantly by markets themselves and by the advantages members see in liberalization. This is not a phenomenon that should or will be reversed. The lesson of the current crisis is not that we should try to turn back the clock on liberalization, but rather that there is a need for a better pace and sequencing of liberalization with other reforms, most notably in the domestic financial sector, and the adoption of appropriate macroeconomic and exchange rate policies.

Third, with its mandate in the international monetary system and its universal membership, the Fund is uniquely placed to foster prudent, well-considered, and orderly liberalization worldwide. It can do this while respecting the interests and roles of other organizations active in this area. I was interested to see that speakers at our seminar from other organizations

noted the complementarity of the Fund's role with that of their own organizations in this area, and this is a basis on which we should build.

Against this background, Executive Directors have reaffirmed that the orderly liberalization of capital movements should be one of the purposes of the Fund. We have reached broad agreement on the text of an amendment to the Articles that would express that purpose in general terms, by amending Article I (ii) and (iv) as follows (modifications are indicated):

- “(ii) To facilitate the expansion and balanced growth of international trade in **goods and services and an efficient international allocation of capital**, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.”
- “(iv) To assist in the establishment of a multilateral system of payments in respect of current **and capital** transactions between members, **in the orderly liberalization of international capital movements**, and in the elimination of foreign exchange restrictions which hamper world trade **and investment**.”

The agreement on the language is provisional and may be revisited in light of the further deliberations of the Board. There is a need to work with determination on other aspects, including policy issues, jurisdiction, and financing, with the aim of bringing an amendment of the Articles to the Interim Committee, and ultimately the Board of Governors, as soon as we can.

In the meantime, I believe it is the sense of the Board that our report to the forthcoming Interim Committee meeting provides an opportunity to reinforce the momentum of our work on the amendment, and that we can report that we have reached provisional agreement on that part of the amendment dealing with the purposes of the Fund, and that we are continuing our work on the remaining issues as a matter of high priority and will present a complete amendment for the Committee's consideration as soon as feasible. This will send an important signal to the Committee and the international community in general regarding the importance of continued progress toward capital account liberalization and the Fund's positive view of efforts in that direction.

2. INTERIM COMMITTEE—ISSUES

The Executive Directors discussed issues relating to the Interim Committee.

Ms. Lissakers said that three matters needed to be considered. First, the Board was scheduled to discuss global financial architecture issues during the following week, but there had been no staff report issued yet. Second, following the Interim Committee meeting, a G-22 meeting would be hosted by the United States. That meeting had been moved back from

5:30 p.m. to 6:00 p.m. to avoid any potential overlap with the Interim Committee meeting, and there had been an informal suggestion that the Interim Committee meeting might be pushed forward from 9:30 a.m. to 9:00 a.m. to further minimize that possible overlap. Such a move would be constructive, and she wondered whether the Chairman of the Interim Committee had canvassed the idea with a wider audience. Third, the Chairman of the Interim Committee had sent a letter to Ministers outlining his hopes for the Interim Committee discussions and requesting advance copies of statements for the morning world economic outlook session. The Chairman would circulate a note summarizing those written statements, and that note would constitute an advance draft of the communiqué. Members of the Interim Committee had been asked to raise any points of objection or proposed changes during the morning session. Unfortunately, that procedure might conflict with the goal of a free-flowing morning discussion. A preferable approach might be for the Chairman to modify his summary note in light of the comments made during the substantive discussion, and then issue a revised version which would need only minimal modification at the end of the day.

The Secretary replied that a staff report on architecture was under preparation and would be available shortly. The report would briefly outline the status of Board discussions on a range of issues, and would serve as a summary guidance note for Ministers regarding the different issues covered by Item 3 of the meeting agenda.

On the morning world economic outlook session, the Chairman of the Interim Committee had not intended the session to turn into a drafting discussion, the Secretary continued. Instead, it was hoped that Ministers would use the opportunity to raise any points they thought had not been properly reflected in the Chairman's draft summary note, and so avoid any surprises later.

Ms. Lissakers commented that the informal rules of the Board included the notion that silence was equivalent to consent; it was important to avoid a situation where concerns later in the day would not be properly incorporated into the communiqué, as they had not been explicitly raised during the morning discussions.

Mr. Donecker and Mr. Shields agreed with Ms. Lissakers' comments.

The Secretary reaffirmed that the Chairman had not intended to restrict the Ministers' input; rather, an attempt would be made to streamline the communiqué drafting procedures. Nevertheless, Ms. Lissakers' concerns would be conveyed to the Chairman.

Mr. Shields remarked that procedures surrounding the drafting side of the communiqué had not worked smoothly in previous meetings. Ministers had often been presented with a paragraph or statement and told that they had a brief period of time to agree to it. Ideally, there should be a way for Ministers to review some of the entire draft text in advance, rather than paragraph by paragraph. Further, the afternoon policy discussion had often been rushed, sometimes not starting until 3:30 p.m. As an alternative, it was possible for some Ministers to wrap up the world economic outlook part of the communiqué, while discussions proceeded on policy aspects in the Committee itself. More thought needed to be given to establishing a timetable to which members could adhere so that a communiqué could be ready shortly after the conclusion of the meeting.

Responding to a question by Mr. Shields on whether the 9:00 a.m. start time for the Interim Committee would infringe on the G-10 meeting that was scheduled for 8:00 a.m.,

Ms. Lissakers pointed out that the G-10 session rarely lasted more than 40 minutes.

Mr. Donecker commented that the G-10 Ministers might wish to decide for themselves whether to take only 40 minutes, and that the Committee should accommodate them should they wish to take an hour. Also, there might be some scope for discussion of international financial architecture issues before lunch, given the proposed streamlining of the world economic outlook process.

Mr. Szczuka said that he agreed with Mr. Donecker on the need to allow the G-10 Ministers to decide on the appropriate length of their meetings.

Mrs. Van Geest agreed that the communiqué drafting session needed to be improved, but arriving at a draft communiqué very early, in line with procedures followed by the Development Committee, should not be the preferred goal. Agreeing on a draft earlier in the day would be sufficient.

The Secretary remarked that it might be possible to start the drafting session before the end of lunch. The idea would be raised with the Chairman, who would need to designate a representative to chair the meeting.

On the possibility of an early circulation of a draft communiqué, such a move would be difficult as it would have to anticipate what Ministers would say on particular issues, the Secretary continued. It had been the practice of the Fund not to imitate the communiqué procedures of other institutions, but instead to have the communiqué reflect the substantive discussions of the meeting. Still, every effort would be made to circulate those parts of the communiqué as soon as possible. However, the main portion of the communiqué was the world economic outlook section, which could be circulated earlier as it would be based on advance statements provided before the drafting session.

Mr. Kiekens suggested that Executive Directors, when commenting on the Chairman's summary note, forward any proposed amendments in writing on the morning of the meeting. That would allow those proposals to be taken into account by the start of the drafting session, and would ensure that the first draft would more closely reflect the consensus.

Mr. Taylor asked for information on when the Ministers from Indonesia, Thailand, and Korea were expected to speak. He further remarked that the Interim Committee meeting needed revitalizing, and that early discussion of architecture issues would be one way of achieving that goal. Also, thought should be given to ways in which the communiqué drafting session could be streamlined.

Mr. Guzmán-Calafell asked whether there was confirmation on which speakers would be invited to speak at the beginning of the morning session. He also asked for further clarification as to the likely time allowed for each of the afternoon session's agenda items.

The Secretary replied that the Ministers from Thailand, Indonesia, Korea, and Japan had been invited to speak, and that there would be a statement from the United Kingdom, which would represent the European Union. However, confirmations had only been received from Japan and the United Kingdom.

Mr. Shields questioned whether there was a need for the planned interventions by the Asian Ministers. A lead speaker on the Asian crisis might be sufficient, which would then be followed by the world economic outlook session. Having a group of Ministers make separate statements at the start of the session might prompt further statements by others, and might then revert into a series of 24 statements, with little scope for a free-flowing discussion.

Mr. Askari-Rankouhi said that he shared Mr. Shields' concern.

Mr. Yoshimura remarked that the Japanese Minister would present a statement on the Japanese economy, as had been the arrangement in previous Interim Committee meetings.

The Secretary commented that the existing intention was to have presentations early in the world economic outlook session—an introduction by a number of Ministers, an intervention early on by a speaker on behalf of the European Union, and similar early interventions by the Asian Ministers. The objective was to make the session more interactive. However, confirmations were needed before a decision on the final structure could be reached. The Chairman of the Interim Committee would circulate an additional message which would provide more detail on the structure of the meeting and which would identify issues that Ministers might wish to address. That guidance from the Chairman would build on the Board's world economic outlook discussions and would take into account the concerns that had just been expressed by Directors.

On the issue of lunch, the Chairman's preference had been to address international financial architecture issues during the lunchtime session, with the possibility of extending the discussion into the afternoon restricted session, if needed, the Secretary continued. There would be no lead speakers for that session, and the lunch would be limited to the members of the Committee. The background for the lunch discussion would be the staff report on architecture that would shortly be presented to the Board. The other items on the agenda could be dealt with relatively quickly, and so would be taken up in the afternoon session after completion of the discussion on international architecture.

Mr. Donecker expressed concern at the prospect of dealing with architecture issues at lunch. Reform of the international financial architecture was a weighty topic deserving the undivided attention of the Committee. Additionally, it had been standard practice for central bank governors to dine at a separate luncheon. However, the German central bank governor had strong opinions on architecture issues, and those opinions should be heard by the Committee. Perhaps Agenda Item 3 could be continued into the afternoon session, or the discussion could be started earlier.

Mr. Taylor suggested that the meeting might be revitalized if the world economic outlook session could be dealt with at lunch, allowing the agenda item on architecture to be moved to the morning session.

Mr. Sivaraman, Mr. Shaalan, Mr. Shields, Mr. Cippà, and Mr. Fernández agreed with Mr. Taylor's suggestion.

Responding to a comment by Mr. Guzmán-Calafell, that the number of sub-items scheduled for discussion was quite large and might take up to four hours to complete, Mr. Donecker remarked that this was even more reason to consider moving the item to the morning session.

The Secretary stated that he would pass on those suggestions to the Chairman, but noted that, in the past, important issues had been addressed during the lunch session. The initial idea was that extension of the architecture item into the restricted afternoon session might allow a more free-flowing, productive discussion. He asked whether Directors wanted the possible morning session on architecture issues to be restricted.

Mr. Yoshimura replied that he could foresee some difficulty restricting the morning session, as it would mean that some of the delegates from Tokyo would have to be excluded from the opening of the meeting.

Mr. Joyosumarto, Mr. Taylor, and Mr. Mozhin shared Mr. Yoshimura's reservations.

Ms. Lissakers questioned whether there was a compelling reason for the architecture discussion to be restricted.

The Secretary noted that moving Agenda Item 3 to the morning session might resolve the issue of where the Asian Ministers would intervene. It would be possible to have the Ministers from Thailand, Indonesia, and Korea intervene during the morning session on architecture issues, while the Ministers from Japan and the European Union would lead into the world economic outlook discussion at lunch.

Responding to a concern raised by Mr. Kafka, that only a few Ministers were being given a chance to speak on the world economic outlook, Mr. Donecker noted that all Ministers will already have been given an opportunity to submit written comments to the Chairman, which would have been incorporated into the provisional summing up.

Ms. Lissakers said that she agreed with Mr. Donecker's statement.

The Secretary replied that the intent had not been to exclude any Ministers from intervening, but rather to have some Ministers lead the Committee into a more interactive discussion.

Responding to a concern by Mr. Guzmán-Calafell, the Secretary commented that, for Agenda Item 3, the Asian Ministers would intervene early in the discussion, and that there would then be time for reactions and questions. It was assumed that Ministers would then wish to address the various issues listed under the item.

Mr. Sivaraman remarked that the Asian Ministers would provide their statements to the Chairman prior to the meeting, so that all other Ministers would have an opportunity to respond in written summary form to the points raised in those statements, as well as to general architecture issues.

Mr. Kafka noted that many Ministers would want to retain the opportunity to speak to a wider public audience, particularly on the world economic outlook, which might now be scheduled for the lunch session.

The Secretary replied that the situation was not new. Ministers routinely prepared and circulated a statement that extended beyond the one actually made during the meeting. Moreover, lunch sessions had often covered issues, such as quotas or SDRs, which had been previously covered by written public statements by Ministers. Regarding the possibility of

publicly releasing remarks made during any portion of the meeting, there was a trade-off between the existing desire for a more informal, interactive discussion and the desire to make public statements. It would be difficult to ensure both.

Responding to a question from Mr. Mozhin, on whether Committee members were expected to address all agenda items in their written statements, the Secretary replied that it had been previous practice for statements to concentrate on the world economic outlook agenda item. The Chairman, however, had encouraged members to submit further comments on other agenda items, as that would allow a better preparation of the communiqué on all subjects.

Mr. Giustiniani questioned whether the afternoon issues, which were expected to be dealt with quickly, might be moved to the lunch session. That would allow discussion on the world economic outlook and the Asia crisis in the morning, followed directly by the architecture discussion, which would resume in the afternoon. The Asian crisis, in particular, might require extended discussion and might not easily be dealt with at the lunch session.

Mr. Fernández suggested that the world economic outlook discussion begin at lunch and then extend as needed into the afternoon session. Ministers might appreciate the opportunity to address international financial architecture issues in the morning, as they would be the main issues of the meeting.

Mr. Shields said that he agreed with Mr. Fernández. Also, he expressed some concern that the Asian Ministers' speeches might tend to be defensive, rather than forward-looking—particularly if the session were unrestricted.

Mr. Donecker supported those sentiments and suggested that it might be useful if the Asian Ministers also touched on how to improve the architecture of the international monetary system.

Mr. Guzmán-Calafell commented that it was possible to follow the original order without following the traditional approach. The meeting could still open with discussion on the world economic outlook, which would start with presentations by the Asian Ministers, and there would then be a free-flowing discussion. It would be made clear that Ministers were not expected to read prepared speeches during that discussion. The discussion might then be limited to a shorter time period than in the past and would be followed by discussion of architecture issues. However, there appeared to be some differences of opinion among Directors, so the final decision would have to be left to the Interim Committee Chairman.

In summarizing the sense of the meeting, the Secretary said that it appeared that a majority of Directors preferred to have the architecture item discussed during an unrestricted session in the morning. There would be possible lead-in presentations by Asian Ministers, followed by questions and reactions. Thereafter, Ministers might wish to address operational issues raised by the sub-items on architecture. Although it was hoped that the session would be interactive, this section of the session might require a speakers list.

The world economic outlook discussion could take place at lunch, with a possible extension into the afternoon session, the Secretary continued. The discussion might not take so long, as the streamlined world economic outlook procedures would mean that there would be no need for formal statements. The Ministers from Japan and the European Union could

make their presentations at lunchtime on world economic outlook topics. The rest of the afternoon session would cover the remaining items on the agenda.

On the meeting's starting time, the Chairman had expressed concern that a 9:00 a.m. start could have repercussions on the G-10 meeting, the Secretary remarked. However, if architecture issues were moved to the morning session, a 9:30 a.m. start might not be so problematic. The possibility of starting the drafting session earlier in the day would also be explored.

Following a discussion with the Chairman, a more detailed note would be sent to Directors providing an outline of events, the Secretary said.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/98/37 (4/1/98) and EBM/98/38 (4/2/98).

3. TRUST FOR SPECIAL ESAF OPERATIONS FOR HEAVILY INDEBTED POOR COUNTRIES AND INTERIM ESAF SUBSIDY OPERATIONS—TERMS AND CONDITIONS FOR ADMINISTRATION OF ACCOUNT PROVIDED UNDER SECTION III, PARAGRAPH 5(b) OF TRUST

Pursuant to Section III, paragraph 5(b) of the Instrument to Establish a Trust for Special ESAF Operations for the Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations (ESAF-HIPC Trust), the Fund, as Trustee of the ESAF-HIPC Trust, establishes the following terms and conditions for the administration of the Account provided for under that provision:

1. The resources of the Account shall consist of (i) the proceeds of grants and/or loans paid into the Account for the benefit of a member by the ESAF-HIPC Trust, and (ii) net earnings from the investment of resources held in the Account.
2. Within the Account, the Trustee shall establish a separate subaccount for the administration of the resources paid into the Account for the benefit of each member for which the resources have been paid. The Trustee shall establish a subaccount within the Account whenever the Fund as Trustee of the ESAF-HIPC Trust grants final approval of a Trust grant and/or Trust loan under the ESAF-HIPC Trust.
3. Following the establishment of a subaccount, the Fund, as Trustee, shall be authorized to use the resources of the subaccount (including any net income from the investment of such resources) to meet the member's debt service payments on its existing debt to the Fund as they fall due in accordance with the schedule for using the proceeds of grants and loans as

determined under the provisions of Section III, paragraph 4(b) of the Instrument to Establish the ESAF-HIPC Trust.

4. (a) Resources held in a subaccount of the Account and not immediately needed for operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used or, when an exchange of currency is involved, with the consent of the issuers of such currencies. Earnings, net of any transactions costs, shall accrue to the subaccount and shall be available for the purposes of the subaccount.

(c) The Managing Director of the Trustee is authorized (i) to make all arrangements, including establishment of accounts in the name of the Trustee, with such depositories as may be necessary to carry out the operations of the Account, and (ii) to take all measures necessary to implement the provisions of this decision.

5. The SDR shall be the unit of account.

6. (a) Resources received into a subaccount may be in U.S. dollars or such other media as may be determined by the Trustee.

(b) Resources held in a subaccount may be currencies or currencies exchanged for SDRs in accordance with such arrangements as may be made by the Trustee for the holding and use of SDRs.

(c) The Trustee may exchange any of the resources held in a subaccount provided that any balance of a currency held in the subaccount may be exchanged only with the consent of the issuer of such currency.

(d) Payments made from a subaccount shall be made in U.S. dollars or such other media as may be determined by the Trustee.

7. Assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Trustee. The assets of the Account shall not be used to discharge or meet any liabilities, obligations, or losses incurred by the Trustee in the administration of such other accounts. The assets and property held in a subaccount of the Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Trustee in the administration of any other subaccount of the Account.

8. Subject to the provisions of this decision, the Trustee, in administering the Account, shall apply, *mutatis mutandis*, the same rules and procedures as apply to the operations of the General Resources Account of the Fund.

9. No charge shall be levied for the services rendered by the Trustee in the administration, operation, and termination of this Account.

10. (a) The Trustee shall maintain separate financial records and prepare separate financial statements for the Account. Such records and statements will be maintained in accordance with generally accepted accounting principles. The financial statements for the Account shall be expressed in SDRs.

(b) The External Audit Committee selected under Section 20 of the Trustee's By-Laws shall audit the operations and transactions conducted through the Account. The audit shall relate to the financial year of the Trustee.

(c) The Trustee shall report on the resources and operations of the Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the External Audit Committee on the Account.

11. (a) The Account shall remain in effect for as long as is necessary, in the judgment of the Trustee, to conduct and to wind up the business of the Account. A subaccount for a particular member would be wound up when the resources of that subaccount have been exhausted in servicing the member's obligations to the Fund.

(b) Any balance remaining in a subaccount upon termination and after the discharge of all obligations of that

subaccount shall be transferred promptly to the member for which the subaccount had been established. (EBS/98/61, 3/26/98)

Decision No. 11698-(98/38) ESAF, adopted
April 1, 1998

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAM/97/59 (3/27/98) is approved.

APPROVAL: March 19, 2001

SHAIENDRA J. ANJARIA
Secretary