April 2, 1996

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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 95/54

10:00 a.m., June 2, 1995

Contents

Executive Board Attendance

M. Camdessus, Chairman
A. D. Ouattara, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
M.-A. Autheman	M. Sirat
J. Bergo	
	V. J. Fernández
	J. Guzmán-Calafell, Temporary
I. Clark	G. F. Murphy
B. S. Dlamini	D. Z. Guti
H. Evans	J. Shields
K. P. Geethakrishnan	W. Hettiarachchi
	L. M. Cheong
	K. Link
	R. F. Cippa, Temporary
A. Kafka	
W. Kiekens	
	H. A. Barro Chambrier
	N. Coumbis
	J. C. Martinez Oliva, Temporary
	M. Giulimondi, Temporary
K. Lissakers	B. S. Newman
H. Mesaki	T. Fukuyama
A. Mirakhor	
C. Saito	A. G. Zoccali
S. Schoenberg	
A. S. Shaalan	Y. Y. Mohammed
	A. V. Mozhin
E. L. Waterman	J.-H. Kang
	O. Havrylyshyn
	F. A. Schilthuis, Temporary
Zhang M.	Wei B.

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

Also Present

Administration Department: K. B. Dillon, Director. African Department: E. A. Calamitsis, Director; G. E. Gondwe, Deputy Director. Central Asia Department: P. J. Heytens. European I Department: A. Leipold. European II Department: J. R. Wein. External Relations Department: S. J. Anjaria, Director; G. Hacche, B. J. Mauprivez. Fiscal Affairs Department: P. S. Heller. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; J. L. Hagan, Jr. Monetary and Exchange Department: V. Sundararajan, Deputy Director. Policy Development and Review Department: J. T. Boorman, Director; B. Christensen, S. B. Creane, N. L. Happe, N. Kirmani, K. J. Langdon, C. Puckahtikom, S. M. Schadler. Research Department: M. Mussa, Economic Counsellor and Director; F. Caramazza, R. A. Feldman, P. Isard, T. Ito, F. Larsen, P. R. Masson. Secretary's Department: J. W. Lang, Deputy Secretary; J. M. Boughton, R. Bradshaw, K. S. Friedman, B. R. Hughes, W. Tseng. Southeast Asia and Pacific Department: K. Saito, Director. Statistics Department: J. B. McLenaghan, Director. Treasurer's Department: D. Williams, Treasurer; G. Wittich, Deputy Treasurer; S. Backes, J. E. Blalock, J. C. Corr, H. Hessenius, I. Otker, O. Roncesvalles, N. L. Wagner, M. A. Wattleworth, B. C. Yuen. Western Hemisphere Department: C. M. Loser, Director. Office of the Managing Director: S. Sugisaki, Special Advisor; G. R. Saunders, Personal Assistant; D. Burton, J. Prust; Office of Budget and Planning: L. A. Wolfe, Director. Advisors to Executive Directors: J. O. Aderibigbe, P. Cailleteau, S. S. Farid, S. K. Fayyad, T. K. Gaspard, He J., A. R. Ismael, R. Kannan, B. Konan, H. Mori, S. N'guiamba, S. O'Connor, T. Oya, M. Petrie. Assistants to Executive Directors: S. Al-Huseini, T. Berrihun, D. Daco, J. Dagustun, R. Ferrillo, A. Galicia, C. M. Gonzalez, A. Guennewich, G. H. Huisman, S. Ishida, P. Jilek, W. C. Keller, E. Kouprianova, J. Pesola, G. P. Ramdas, S. Rouai, A. Sighvatsson, V. Verjbitski, R. von Kleist, E. Zamalloa, Zubir bin Abdullah.

1. USE OF FUND GOLD

The Executive Directors considered a staff paper on gold in the Fund (EBS/95/69, 4/21/95).

Mr. Clark made the following statement:

The document underpinning today's discussion provides extremely useful historical background on the role of gold in the Fund and includes a number of valuable appendices that help guide the discussion--notably, the gold sale simulation, the Fund's experience with previous gold auctions, and an overview of conditions in the gold market. The staff deserves our appreciation for this work. Unfortunately, however, the staff paper does not directly address the main issue at hand, which is the prudentially optimal composition of the Fund's asset portfolio.

Although the prudentially optimal portfolio may be different from the standard financially optimal portfolio because of extraneous prudential operating constraints required to deal with unique information and risk problems facing the Fund as a lender, the two are not independent concepts.

The prudentially optimal portfolio may place a heavier weight on reserve asset share and quality in its composition at the margin, but cannot ignore liquidity and income contribution entirely. Even if gold has the highest quality as a reserve asset--an arguable point as it is no longer a monetary asset--it has less utility with regard to the latter properties.

There seems to be a clear need for an empirically-based optimal portfolio analysis for the Fund similar, for example, to that conducted for the Exchange Fund Account in Canada. In this case, the analysis argued in favor of a low gold weighting in the optimal portfolio, which has led to a program of gold sales by the Bank of Canada on behalf of the Exchange Fund Account. Of course, with a different set of objectives, asset composition and operating constraints, the Fund's asset portfolio may have different weighting on gold in its optimal portfolio, but I would wager that it would be substantially lower than the current weighting. The staff may wish to comment on the prospect of undertaking such an analysis.

My comments are cast in terms of a prudentially optimal portfolio and will address issues related to the reasons for holding gold as a reserve asset, the cost of holding gold, the market effects of gold sales, and the preferred use of the proceeds and income from gold sales.

Except for the remarks on the market effects of gold sales, the reasons cited in the staff paper for holding gold are essentially reasons for reserving some portion of the asset portfolio as a precautionary balance. These arguments relate primarily to the scale of that reserve, not to its composition, which is a separate issue. Clearly such an asset reserve is required, but it need not be held in the form of gold. As long as the proceeds from the gold sale are held as the core of the liquid asset reserve, the financial integrity of the Fund and its "credibility rating," which is similar to a credit rating for a market borrower, would be preserved. In fact, as the proceeds could be invested in more liquid, income-generating financial assets, the financial integrity and credibility rating of the Fund could even improve.

Moreover, the argument that gold may improve the credit-worthiness of the institution if it borrows publicly implies that the gold assets are at least implicitly pledged as collateral. However, high-quality marketable securities can provide the same security for market borrowings and still have the added advantage in this case of generating revenue that can reduce the all-in cost of borrowing. It is doubtful that the saving on borrowing cost associated with holding gold as a collateral asset relative to holding high-quality securities will exceed the interest earned on these securities. The Fund, with its preferred creditor status among members, is already a high-quality, creditworthy institution, and the replacement of some of its gold assets with high- quality securities is unlikely to alter this status.

It should also be noted that the prudentially optimal portfolio is likely to demand some gold assets in its composition, so that the issue of gold sales is not an all-or-nothing proposition.

Annex VI of the staff paper, on gold sales simulations, indicates clearly that since 1981 the rate of return on a portfolio with decreasing gold content outperforms a gold position of the same value. In fact, the gain in average annual return from holding a diversified portfolio is more than 400 basis points. The paper notes that this gain accrues only if the profits from the investments are reinvested and if the rate of return on the financial assets exceeds the price increases in gold.

However, the simulation also indicates that over the period examined, the rate of return on the portfolio increased as the gold share declined--in large part because gold prices were declining--and that some portion of the investment income could have been diverted to finance Fund operations and the

diversified portfolio would still have outperformed an all-gold position. This latter point is significant, as the paper claims that the 1976-80 gold sale of 25 million ounces by the Fund was economically more valuable than the transaction profits because the proceeds were used to finance other desirable, interest-earning initiatives.

Although the staff paper suggests that a gold sales program may have a significant adverse price effect, it points to no empirical evidence of such an effect during the years that the Fund and a number of central banks, including the Bank of Canada, have engaged in gold sales programs. Indeed, the evidence seems to suggest that a preannounced, transparent and gradual program of gold sales has little effect on market conditions. In the late 1970s, when the Fund and several European central banks engaged in substantial gold sales programs, gold prices continued to increase--driven by inflation-hedge demand, which similarly affected other real estate and commodity assets. Price shocks generally arise in asset markets because of unanticipated shocks; preannounced and scheduled sales programs allow buyers to adjust their inventory demands and producers to adjust their production schedules.

The size of the gold sale program is obviously a factor in this calculation. Since 1968, official gold sales have averaged around 12 percent of new gold production according to the staff paper and gold prices are more stable now than in the 1970s. Moreover, a sale of 10 thousand ounces, spread over two or three years in monthly auctions, is well within the estimated limit of 6 to 8 thousand ounces per year for gold market stability. This would represent only about 10 percent of the Fund's stock of gold.

As to the use of gold sale proceeds, as this chair has stated in the past, the principal and profits from the gold sales should be preserved in the liquid asset reserve. The income from the investment of these proceeds could be used to help finance a permanent and self-sustaining enhanced structural adjustment facility (ESAF), which would complement World Bank initiatives to support heavily indebted poor countries. This program easily fits the Managing Director's two principles for gold sales: maintenance of the Fund's financial integrity and a contribution to achieving the Fund's stated objectives.

Ms. Lissakers made the following statement:

The staff paper provides a useful summary of the history of gold in the Fund, the rules surrounding its use, and the various considerations on possible mobilization of gold since ratification of the Second Amendment of the Articles of

Agreement. The paper does not--indeed, could not--make a specific recommendation. The basic message, however, is one of caution.

I have no problem with a cautious approach. Indeed, as the largest creditor to the institution as well as the largest contributor of gold, the United States has a particularly strong interest in ensuring the wise deployment of this asset. Nevertheless, I draw somewhat sharper conclusions than does the staff.

The Second Amendment circumscribed the use of gold in the Fund, particularly as a medium of exchange and unit of account, but retained gold as a valuable asset that could be mobilized to achieve the Fund's purposes. The amended Articles also outlined the possible uses of mobilized gold but left to future Executive Board decisions the form in which this asset should be held and its use. Thus, the key issues confronting us are the proportion of the Fund's assets that should be held in the form of gold bars and how potential profits from the sale of gold might best be utilized to achieve the Fund's objectives.

At present, the Fund's 103 million ounces of gold have a market value that represents 17 percent of total Fund assets, 73 percent of outstanding loans, and 78 percent of liquid liabilities. Portfolio theory does not give a clear answer to the issue of what proportion of the Fund's assets should be held in the form of gold, and the staff has concluded that decisions should be guided by what is most consistent with the Fund's long-term interests and purposes. The staff's arguments for holding gold rest primarily on the role of gold as a reserve and appear to be based on the presumption that any sales would result in an erosion of the Fund's assets as potential profits are consumed, either by returning them to members as occurred in the 1970's restitution scheme or as a result of losses on loans financed from the proceeds of gold sales. We certainly share those concerns but believe that they can be addressed by carefully husbanding any profits. Indeed, some approaches could enhance the reserve function of gold by making it liquid and therefore more useful as a potential backstop.

Moreover, retaining this asset in an illiquid, non-interest bearing form is clearly costly and has diminished its value to the institution. The question of how best to preserve and enhance this reserve value boils down to how one views possible movements in the price of gold as well as the interest rate one could obtain by investing gold sales proceeds. Obviously, such fluctuations cannot be predicted with any great accuracy. Past experience, however, offers some guidance. As Annex VI illustrates, the average annual return on gold over the

period 1980-96 has been negative--an average of nearly 3 percent a year. The average SDR interest rate was 7.34 percent over this period. If gold had been sold off under the hypothetical conservative sales program simulated in the annex, a 1.37 percent annual rate of return would have been realized. This is modest, but seen in compounded as well as dollar terms it is not insignificant. A compounded annual 1.37 percent return over a 16-year period results in a 24 percent increase in total value. In the case of Fund holdings over the period, this represents $11 billion in forgone revenue.

The past is not prologue, and even if it were, this outcome would not argue for selling-off all the Fund's gold. Other factors are at play, to which I will return. It does, however, suggest scope for some diversification.

The amended Articles envisaged three broad possible uses of the proceeds from any gold mobilization: to provide an earning asset that could enhance the Fund's financial position and reserves; to provide balance of payments financing to members in general through the General Resources Account; and to provide concessional financing to low-income developing countries. The Fund's financial structure, particularly the creation of the Special Disbursement and Investment Accounts, was modified to facilitate the achievement of these objectives with appropriate checks and balances built in through qualified voting majorities.

Each of the uses provided in the Articles has its advantages and disadvantages, which need to be considered carefully.

The Second Amendment provided greater scope for the Fund to invest a portion of its assets to provide income to finance administrative expenses. The Fund, however, has not engaged in any investment activity since the Second Amendment, in part, because there was no financial incentive to use its quota resources for this purpose. The possibility of obtaining interest-free resources obviously changes this situation. Both the Special Disbursement Account and Investment Account can serve as investment vehicles. The Special Disbursement Account would appear to have greater flexibility for this purpose even though the Investment Account was created ostensibly for this purpose. Staff comment on the relative merits of using the Special Disbursement Account and Investment Account would be welcomed, including such issues as the amount of permitted investment under each Account, the flexibility with regard to possible investments, and voting majorities on key decisions regarding investment, liquidation, and the use of income and principal.

As the staff notes, the book value of any mobilized gold would be placed in the General Resources Account and the profits could also be transferred from the Special Disbursement Account to the General Resources Account by a 70 percent majority vote. Such action would strengthen the Fund's liquidity and income positions. However, placement of the gold profits in the General Resources Account to finance Fund lending would erode the gold as a reserve because the risk-adjusted rate of return would be lower than if the proceeds were invested in risk-free assets that also earned an SDR interest rate.

Placing gold sales profits in the Special Disbursement Account with the aim of under-writing the ESAF would strengthen the Fund's ability to help the poorest countries but at the expense of eroding the reserve function of the gold and forgoing an opportunity to strengthen the Fund's financial position.

It is not our purpose today to choose among these alternatives. I would suggest, however, that these purposes are not mutually exclusive and that a reasonable balance can be achieved that can enhance the financial strength of the institution and advance its purposes. It is rare that a "win-win" solution can be achieved, and it would be unfortunate if we were to let the opportunity slip by.

For this purpose, it should be possible to fashion an arrangement that preserves the security to creditor positions currently afforded by gold, strengthens the institution's ability to respond to new financing needs, and possibly reduces costs to both creditors and debtors. Indeed, possible approaches have already been suggested by the Managing Director and the United Kingdom in which modest amounts of gold would be sold, the profits invested, and the income utilized to help finance the ESAF.

I recognize that, as always, the devil is in the details, particularly the crucial issue of the amount of gold that might be mobilized. However, in a resource-constrained world, the Fund and its members can ill afford to allow a valuable asset to lie fallow. We need to begin to explore ways to ensure that all our resources are used effectively and efficiently. Today's discussion is a start. I hope that we can make further progress and come to some conclusion by the next Interim Committee meeting.

The Treasurer recalled that the staff had conducted a number of "efficient frontier" analyses of the trade-off between risk and return in the context of three different and important operational policies in the Fund, namely, the asset allocation of the Staff Retirement Plan, of the role of the SDR in members' reserves, and of the role of gold in the Fund. Those

studies had not been published, and the latter two studies had not proven helpful in the context of the Fund. The Fund had only two assets--SDRs and SDR-denominated assets and gold--and there was no question that the SDR was better than gold in terms of financial return.

Mr. Mirakhor said that he wished to associate himself with Ms. Lissakers's remarks, which had contributed importantly to the current debate. It would have been helpful to have a forward-looking simulation in Annex VI as a point of reference for assessing the costs to the Fund of holding gold.

The calculation of interest income forgone--$11 billion over a 16-year period or $687.5 million per year--was helpful, Mr. Mirakhor stated. But, footnote 2 on page 21 indicated that each million ounces of gold represented remuneration expense of SDR 180 million at the current SDR rate and rate of remuneration, and that the forgone interest income on unrealized gains was on the order of SDR 10.5 million. Based on the current price of gold--about $380--and the value of the U.S. dollar in terms of the SDR, he would have expected a higher figure.

While estimating the financial cost of holding gold in terms of remuneration expense and of interest income forgone was a fairly straightforward exercise, clarifying the benefits of holding a relatively large stock of gold was a more difficult task, Mr. Mirakhor observed. The benefits to some extent were self-canceling. The staff paper had stated that four main reasons and then proceeded to add a fifth: "The private market for gold is relatively narrow and volatile. Relatively heavy and continuing sales of gold would depress the price significantly, thereby impacting the value of central bank assets." That point was buttressed by the analysis of an earlier section, which concluded that for practical purposes, gold had become a relatively immobile asset of central banks. Given that practical reality, one might venture to question what remained of the value of gold as the Fund's ultimate reserve asset, as support for its liquidity position, and as an asset that could be mobilized to meet various contingencies. The point was similarly doubtful as a justification for the Fund's holdings: "Having very much in mind the policy adopted in this respect by its key shareholders who happened be to the main holders of the gold in have the would world has much force since they confront the same reality of private markets that are relatively narrow and volatile." Those same key shareholders were the most likely lenders to the Fund under the General Arrangements to Borrow as currently constituted or as likely to be enlarged in the aftermath of the forthcoming Halifax Summit of the Group of Seven major industrial countries. If they wished to accept the argument that gold underpinned the Fund's liquidity and therefore its credibility, so be it. It must also be recognized that the undervaluation of gold on the Fund's balance sheet provided a rare margin of manoeuver that might be much too tempting to ignore. For those at the receiving end of such vicarious largess, it might be equally attempting to accept, but the temptation should be resisted.

Another interesting footnote, on page 20, observed that, based on most econometric estimates of price elasticity, the risk of price reduction became significant for sales exceeding 6 to 8 million ounces a year, Mr. Mirakhor stated. As to the estimated amounts needed to cover the 1997-2003 period for a self-sustaining ESAF, gold sales could stay well under that range and yet serve an important purpose of the Fund, and in that regard, he associated himself with Mr. Clark's comments.

Mr. Mesaki made the following statement:

At the outset, I appreciate the staff's preparation of this useful and comprehensive paper. I believe that this is good ground on which we can deepen our understanding on this difficult issue.

I would like to begin with the issue of the role of gold in the Fund's financial position as a financial institution. In order to properly analyze this, it is useful to compare the costs and benefits associated with the holding of gold. We are faced, however, with a problem: while costs can be expressed quantitatively, benefits cannot be easily expressed this way; it is therefore difficult to compare quantitative costs with non-quantitative benefits. Even if the Fund were to sell part of its gold, it would not be easy to determine how much should be sold in order to equalize the costs and benefits of holding gold. This is, after all, a matter of judgment.

Nonetheless, I cannot overemphasize that it would be dangerous to underestimate such benefits, even though it is difficult to express them quantitatively, and I believe that all four benefits pointed out by the staff--backing the Fund's overall financial position, general support of the Fund's liquidity position, strengthening the Fund's ability to borrow, and meeting various contingencies--are important. In particular, in light of the recent crisis in Mexico, the benefit of maintaining the Fund's ability to respond to unexpected events seems even more important.

At the present time, I do not think that there is any clear evidence that the costs of holding gold exceed the benefits, and, therefore, as far as maintaining the financial integrity of the Fund is concerned, we should be prudent in considering sales of gold. The fact that a number of official institutions are holding gold as a reserve asset might indicate that there is a recognition that the benefits of holding gold exceed the costs, and that it is necessary to hold gold for the purpose of maintaining the value of these countries' currency. In this regard, the fact that many central banks of major industrial countries have not significantly reduced their gold reserves might imply that gold is still seen as the ultimate

reserve. I believe that today's discussion will be a useful first step in our consideration of this issue.

I would like to add a more practical question for future consideration. As I emphasized at the previous meeting, the use of proceeds from gold sales will not cause pain to any member of the Fund; therefore, if we decide to sell gold, it will be extremely difficult to set limits on subsequent sales. In this regard, I would like to point out another problem: with respect to bilateral contributions to the Fund, and in particular the contributions to the ESAF, I would recall that we have explained to our respective parliaments that, as selling gold was impossible, bilateral contributions were needed. If gold were made available, our parliaments could argue that our bilateral contribution should be substituted with proceeds from the sales of gold, and there would be an obstacle to the smooth disbursement of our contributions. We should fully bear this problem in mind.

In any event, it is necessary to consider the impact of the sale of the Fund's gold on the international monetary system, on the role of the Fund in that system, and on the financial position of the Fund, taking full account of the issues I have raised--and we should carefully consider the treatment of the Fund's gold.

Mrs. Cheong made the following statement:

The staff paper provides a comprehensive chronology of Fund discussions on the gold issue. The paper is, therefore, very informative and provides a useful basis for discussion. However, it would have made the Board's discussion even more meaningful if the staff had made some specific proposals on possible options for use of the Fund's gold for Board consideration. A presentation of alternative proposals is timely, as there has been no comprehensive review of our gold policy since 1980, although the topic has been raised on a number of occasions in connection with other policy issues.

I was further disappointed that the chronology of discussions on gold did not include recent discussions regarding the use of gold in connection with financial arrangements to make the ESAF a permanent facility. A specific proposal on the use of gold was made by the Managing Director, and Directors had indicated their various positions on this issue.

From the paper before us, I sense that the staff has discreetly avoided making specific proposals on the policy direction of the Fund regarding one of its major component assets. The implicit stance seems to be that gold is the

"ultimate asset" of the Fund and that the Fund should be prudent. The paper clearly spelled out the prudential reasons for maintaining gold holdings and the consequent substantial financial costs. The opportunity costs are further underscored by the hypothetical simulations of the returns to be obtained from selling gold as presented in Annex VI of the paper. The staff, therefore, only needs to go one step further to make some proposals on future policies.

At this stage, I would seek the staff's clarification on whether its implied stance of doing nothing is guided by the gold policy of the Fund's key shareholders. In reference to Mr. Mesaki's statement in this aspect, I wish to point out that the gold policy of each of the key shareholders is to fulfill their own individual domestic reserve and monetary considerations. The Fund's responsibilities are broader and more diverse. In our view, the appropriate gold policy for the Fund should be to balance the prudential need for holding gold with the Fund's need to maximize the revenue potential of all of its assets. It is not a stark black-and-white case of either retaining or selling all of the gold. The main issue is finding the appropriate middle ground that will allow the Fund to considerably ease its liquidity position without unduly sacrificing its solid financial reserve base. We agree that there are other standard and alternative means for increasing the Fund's resources. But that should not detract us from a long overdue examination of how best to maximize the use of the Fund's gold.

In examining options for striking this balance, I concur with the staff's view that, at the end of the day, it is a matter of judgment. And, as a matter of judgment, prudence has two sides. On the one hand, it is prudent to let sleeping dogs lie and let the Fund maintain its "current pot of gold" to enhance its financial strength in an implicit manner. On the other hand, it could be seen as imprudent to hold large assets and not use them to create further wealth for the Fund to assist its members.

The primary fear of using gold is the consequent erosion of the Fund's financial standing. But as the staff points out, this position would not be changed if the proceeds of gold sales were not utilized, but kept in separate accounts to maintain their "reserve asset" nature.

However, it is difficult to achieve this position, as gold sales must be conducted in small amounts and over a long period, to protect the gold's market value. The period would probably extend over more than 10 years, or even 15 years, by which time the Fund's financial position would require entirely different

policy considerations. At the same time, if the gold was not used at all, it would be unfair to members for the Fund to request further voluntary contributions for special purposes. Members have already contributed resources to the Fund, and those remain unused.

In light of these conflicting considerations, I propose the following: the Fund should review the overall structure of its assets, including gold, and compare their revenue stream with their revenue potential; based on the objective of maximization of both monetary and nonmonetary benefits, the review could ascertain the appropriate level of gold holdings; subsequent gold sales, should the Board agree on this issue, must be gradual in order to avoid adverse effects on market gold prices and preserve the revenue potential of the whole exercise. The staff has indicated a possible limit to the gold sales program that would minimize the risks of an adverse price effect; the full proceeds of the sales should be retained in the Fund's Investment Account and invested appropriately. Only the investment income should be used as part of the Fund's "usable" resources, under special circumstances, in accordance with Article V, Section 12 of the Articles of Agreement. This would address the concerns raised by Ms. Lissakers.

If a total review is not favored by the Board, I would support a scheme in which very limited gold sales would be considered for special needs, such as for the ESAF subsidy account, as was recently discussed prior to the Interim Committee meeting. Again, only the investment income should be used for this purpose, keeping the gold sales proceeds as part of "unusable reserves" to protect the Fund's financial position.

The use of gold in this manner would also be more equitable in that all countries would share in the Fund's efforts to help the poorest among us. At the same time, the Fund would be using part of its dormant assets to improve its financial standing.

Mr. Zoccali made the following statement:

Some 15 years since the last major review of the Fund's policy on gold (EBM/80/68, 4/9/80), we very much welcome this comprehensive overview on the matter. We agree with the staff's general conclusion that the balance of considerations do not indicate an optimal or "right" level at which the Fund should maintain its gold holdings. Moreover, the assertion that a departure from existing practices would be an matter of judgment, serves to put the Fund's policy on gold in its proper perspective.

While in the past some discretion was used, for example, to assume a contingent, but explicit, undertaking on the mobilization of gold to provide additional assurances to ESAF creditors regarding the repayment of loans reflecting the encashment of rights, it is clear that gold holdings have always played a major prudential role in preserving the Fund's own financial integrity. This perhaps explains the somewhat limited legal scope under the Articles for effecting gold transactions, and the fact that the Fund's gold holdings of over 103 million ounces have remained essentially unchanged since 1980.

A more significant message of the paper is that the Fund's gold holdings represent a markedly undervalued asset, with a potential unrealized gain at recent market prices amounting to slightly less than total Fund credit outstanding. In addition, the simulation in Annex VI shows that by end-1996 the cumulative value of the proceeds from sales of the Fund's holdings could reach a level of SDR 55.5 billion, approximately twice as much as the current market value of the gold stock. Like Mr. Mirakhor, we consider that the inclusion of a forward-looking simulation would have been useful. Nevertheless, it is also clear that a purely passive strategy might not always prove to be the most efficient or effective one--even from the prudential point of view--and that a different approach, as noted by Ms. Lissakers, could actually enhance the reserve function of gold by making it more liquid and useful as a backstop. Based on the assumptions in footnote 2 on page 21, holding immobilized reserves involves carrying costs to the General Resources Account of some SDR 180 million a year, and, as important, forgone interest income potentially exceeding SDR 1 billion a year. I would appreciate clarification by the staff on this point. Thus, while facilitating the buildup of credit positions in the Fund, the existing policy on gold has also placed an added burden on the financing of its operations, and needs to be kept in mind when assessing the adequacy of precautionary balances to preserve not only the Fund's financial integrity, but also its cooperative character.

Against this backdrop, we consider that the legal limitation on attempts to provide a rate of return on physical gold holdings, which did not apply in the late 1950s and 1960s when a gold investment program was undertaken to build reserves, should not deter us from exploring other possible arrangements to reduce the overall opportunity cost of the Fund's gold holdings. We would, therefore, be willing to study further the disposition of a limited amount of gold and to place the "profits" either directly in an Investment Account in the General Department or, in combination with a Special Disbursement Account, to help finance a permanent and

self-sustaining ESAF or some other use that contributes to the achievement of the purposes of the Fund.

At this preliminary stage, suffice it to mention that besides a broad consensus regarding the prospective use of the "profits," the specifics regarding modality, timing, and amount of gold sales by the Fund would need to be carefully analyzed, in order to avoid influencing the price trend in the market. The evidence in favor of preannounced, transparent, and gradual sales programs noted by Mr. Clark and the Fund's own experience in that regard should well be kept in mind.

In conclusion, we generally agree that the Fund should be cautious and prudent in its approach to using the remaining stock of gold. At the same time, it should employ all its resources, including gold, in the most efficient manner possible, balancing prudential with revenue-raising considerations. In any event, we should strive to reach a broad consensus on the policy of gold and avoid resorting to ad hoc decisions for short-term reasons.

Mr. Shields made the following statement:

I very much welcome this discussion; as other speakers have suggested, this review is long overdue. I had hoped that we would look at some of the basic questions about the Fund's ownership and attitude toward gold. Other speakers have identified a number of those issues, including the appropriate level and composition of the Fund's reserves.

It was somewhat surprising to find that the staff paper did not address those basic issues. I wondered why this was so, and decided that there was a central message in the staff paper, namely, that the issue was so sensitive issue that the best approach was to obscure the main arguments. The paper did not help to improve transparency; there was, for instance, no executive summary or issues for discussion.

But we did have help from other sources. Ms. Lissakers and Mr. Clark have been helpful in identifying what the main issues as well as an analytical approach that might have provided some useful ideas.

There clearly is no answer to the question of the appropriate level of reserves. In view of the changes in gold prices and rates of return over the past ten years, it would be surprising if a level that was right ten years ago was right now.

On the question of how the Fund's liquid reserves ought to be held and the role of gold in that context, we do not clearly need gold any longer for monetary purposes, or for members' balance of payments purposes, or to maintain par values. The three justifications suggested in the staff paper were that it is a good last-resort asset, it might perhaps produce a return if the price rose, and--this is a crucial point--it is less easy to access than other financial assets might be.

On the possible financial return from holding gold and its last-resort status, there are no comprehensive answers, although Mr. Clark has probably pushed us in very much the right direction. I note that most central banks over the past 10 or 20 years seem to have been reducing the share of gold in the total stock of their assets--most, but not all.

A fundamental reason for holding gold had been alluded to by other speakers, particularly Mrs. Cheong; namely, that our gold holdings are better protected than any other reserve assets might be. This leads me to wonder whether there are alternative means for protecting ourselves from putting our hands in the cookie jar apart from holding gold and requiring an 85-percent majority for its mobilization. There might be other ways by which we can prevent any abuse of these very useful reserves.

I have noted in particular the remarks of Mr. Mirakhor and Mr. Zoccali on the costs of holding gold. The current opportunity costs depend very much on what affect gold sales would have on the market, but I have also noted the implication in the staff paper that the costs could be on the order of SDR 1 billion per year.

As to the effect of gold sales on the gold market, we are talking about very small sales, and I take some comfort from the previous experience with Fund gold sales and from Mr. Clark's comments in that regard. We should bear in mind that, if we cannot contemplate small gold sales because of the effect on the market, then the value of large gold holdings as an effective reserve is brought into question. If you cannot sell them, they will not help you.

In trying to determine what principles should underlie an approach to the use of gold, there seem to be three basic principles. The first, and most important, is that we should make sure that the protection our reserves have enjoyed over the past 17 years under the gold sale provisions and the high majorities they command should not be threatened. Second, we should be prepared to contemplate some limited diversification of our reserves away from gold in order to stop depriving ourselves of the potential income that could be derived from

mobilizing gold. Third, while it is important to preserve the current capital value of our reserves, if we do pursue limited diversification, we should be prepared to use some of the income so generated for the purposes permitted under the Articles, and particularly, as Mrs. Cheong pointed out, to assist in the provision of concessional finance to low-income developing countries.

There are two proposals on the table at the moment that would involve sales of small quantities of gold: one, by the Managing Director, would use the interest income from small gold sales to help support an interim ESAF until the ESAF can become self- financing; and the second proposal, from the U.K. Chancellor of the Exchequer, would use the interest income to improve access to the ESAF and to enable severely indebted low-income countries to extend their repayments to the ESAF. I hope that we will get an opportunity to discuss these proposals in detail in the near future.

Both have their own merits, and both share four important characteristics: they are fully in the spirit of our gold sales provisions; they will be directed to needy countries undertaking Fund-supported adjustment programs; they would use only a small proportion of the current gold stock; and they would not reduce the capital value of our reserves. A crucial aspect of both proposals is that there should be no diminution of the level of total reserves--only the interest will be spent. Overall, they would not weaken the Fund's overall financial position. One could even say they could strengthen it by assisting debtor countries to move to a more viable path.

Mr. Schoenberg made the following statement:

I want to thank the staff for the comprehensive and well-prepared paper for today's discussion. I appreciate the balanced and cautious views expressed by the staff on this sensitive issue. I also welcome the review of the role of gold in the past. The whole issue becomes much clearer when considered against the historical background.

I, too, noted the staff's ingenious concentration on the merits of so-called substantial gold sales, thereby elegantly getting around a discussion of the actual proposals on the table for using the Fund's gold, which, as far as I can see, involve the sale of smaller amounts. Unlike other speakers, I took this as a welcome sign that the staff continues to adhere to its cautious approach toward gold sales in general.

The key question with respect to the gold issue is whether the Fund can achieve its basic objectives better through a sale

of its gold or by retaining it. At a first glance, the reduced role of gold in the international monetary system appears to argue at least for a reduction of the Fund's gold stock. However, important reasons continue to argue for retaining the present level of the Fund's gold holdings. Thus we share the staff's reservation against "substantial" sales of gold.

I would like to add here that the same arguments that militate against substantial gold sales in principle also hold against smaller sales of gold--only less so. This is true all the more as small gold sales might be regarded by many observers as only a first step toward a more substantial reduction in the Fund's gold holdings. Therefore, we see no reason for the Fund at present to sell gold in any amount.

Let me explain our position in some more detail, dealing in turn with the two major options, namely, the sale of gold for "special purposes," resulting in a permanent transfer of resources, and the sale of gold in order to change the structure of the Fund's assets, without any transfer of resources.

Starting with the sale of gold for special purposes, the gold holdings of the Fund can be considered as the "hard core" of the creditworthiness of the Fund, a "last reserve" that should only be touched in true emergency cases. Another consideration is the staff's view that the Fund should always keep in mind the gold policy of its key shareholders. In view of the narrowness and the volatility of the gold market, major gold sales could significantly depress the price of gold, thereby negatively affecting the value of the exchange reserves of central banks holding major amounts of gold.

In addition, gold sales could have an adverse impact on the Fund's credibility and creditworthiness. In this context, the staff rightly points out that, at a time of rising Fund credit, growing risk concentration, and a substantial stock of overdue obligations, a weakening of the Fund's financial strength could diminish its credibility as the central institution of the international monetary system. This could ultimately result in a reduced willingness of its members to finance the Fund.

These considerations do not apply to the same extent to the sale of very small amounts of the Fund's gold, and we would not categorically exclude the sale of limited amounts of gold if that would contribute significantly to the achievement of the objectives and purposes of the Fund, and if such objectives could not be attained more effectively in a different manner. We do not believe, however, that the recently presented proposals for the use of the proceeds of gold sales--be it for

debt relief for developing countries, for the financing of an interim ESAF, or for similar purposes--would satisfy these criteria. We do not think that the Fund, as a monetary institution, should endeavor to make up for reduced aid flows. More specifically, we see risks of moral hazard if problem countries with inadequate economic policies were to begin speculating that they would be bailed out by Fund gold sales as a last resort. The question must also be asked whether the sale of Fund gold is the adequate instrument to help the relatively few poorer countries that are severely indebted vis-à-vis the international financial institutions and, in particular, the mere handful of countries that is heavily indebted vis-à-vis the Fund. It appears that these countries could be better assisted on a case-by-case basis by the multilateral development banks, by bilateral donors, and, in cases of temporary balance of payments problems, by regular Fund or ESAF credits. In this context it should be noted that proposals for using only the investment income of gold sales for debt relief purposes would reduce the real capital value of this part of the Fund's assets.

The arguments in favor of the other major alternative, namely, to change the structure of the Fund's assets by converting gold into interest-earning financial assets in order to generate higher returns, are based on the expectation that the sale of gold and the investment of the proceeds of such sales would generate higher returns for the Fund than would holding on to the gold stock. However, the outcome of such comparisons based on past experience varies very much with the choice of the time spans applied in the comparisons. If, for instance, 1970 is used as the base year for calculating the return on gold rather than 1980, the outcome is significantly different. Also the staff rightly notes that gold price developments of the past tell little about future price movements.

It is not clear to what extent the so-called costs to the Fund of holding gold might be influenced by the fact that the original gold subscriptions of member countries provided the justification for the unremunerated part of members' reserve positions. A reduction or a dissolution of the Fund's gold stock could raise questions about the rationale underlying unremunerated reserve positions. Higher outlays for remuneration, however, would reduce the opportunity costs for the Fund of holding gold.

On balance, and taking into account the nonfinancial benefits of holding gold, there are no clear signs that costs exceed benefits.

Mr. Shaalan made the following statement:

I wish first to thank the staff for a paper that, perhaps for the same reasons I found it difficult to comment on, must have been difficult to write. As Mr. Mirakhor pointed out, the difficulty stems, in part, from the fact that the benefits of holding gold, while widely perceived to be substantial, are far less tangible than the costs. An additional complication is that, when evaluated against the difficulties and caveats associated with a possible sale of Fund gold, it becomes difficult to see how the benefits of holding gold outlined in the paper could be perceived as sufficiently reassuring. But, the reality is that they are so perceived, albeit to varying degrees.

The conclusion that I would tend to draw is that, while high, the cost of holding gold cannot be realistically expected to form an adequate basis for the broad support necessary for a sale of Fund gold in the absence of an agreement on the purposes for which the proceeds are to be used. I would say, in this connection, that the Managing Director has recently proposed a gold sale for a most constructive purpose, namely, to finance part of the subsidy requirement for concessional Fund assistance during the interim period between the current ESAF and a self-sustaining ESAF. We have indicated our support for this proposal. This continues to be our position. But, we believe that the concerns and reservations expressed during our discussion on this matter, and indeed again today, particularly by Mr. Mesaki, regarding the adverse impact of a gold sale on continued bilateral funding for the existing ESAF, would need to be considered carefully before determining how best to proceed. Like Mrs. Cheong, we would also consider it essential that interest on the profits from a gold sale, rather than the profits themselves, be used in support of this initiative. Here, I think a note is in order. Thus, the asset position of the Fund will, at a minimum, be preserved.

I should make it clear that, from my point of view, the cost of holding gold by the Fund is high. At the same time, I can well understand the view that the Fund should continue to hold a substantial amount of gold, particularly if a gold sale introduces the risk of eroding the Fund's capital base. It does not have to, however. This said, I think that the staff paper has clearly brought out the hidden reserve aspect of holding the gold. Let us, at least, keep that in mind when evaluating the adequacy of the Fund's precautionary balances.

Mr. Cippa made the following statement:

The advisability for the Fund to sell part of its gold holdings has recently arisen on a number of occasions. I also thank the staff for this paper, which presents a comprehensive overview of the past and current issues involved in the use of the Fund's gold holdings. We share the staff's overall conclusion that the balance of the considerations described in the paper does not allow us to define an optimal level at which the Fund should maintain its gold holdings. Nevertheless, by indicating the various pros and cons of further use of the Fund's gold, the paper provides a good basis for our discussions.

When considering possible use of gold holdings in the near future, it is important to note that the current situation should not be compared with the mid-1970s, when an agreement was reached to sell 50 million ounces of gold over a four-year period. Before the breakdown of the par value system in December 1971, gold played a central role in the international monetary system. It played an important role in transactions between the Fund and its members. After the end of the Bretton Woods system and with the abolition of the official gold price, the metal lost this central role. The decision to substantially reduce the Fund's gold holdings was directly linked to this fundamental change in regimes.

The paper points out several advantages for the Fund to hold gold. Gold holdings, being undervalued, represent hidden reserves that contribute to the financial soundness of the institution. By strengthening the creditworthiness of the Fund, gold holdings also enhance the institution's ability to borrow. The sale and the use of a significant amount of gold by the Fund could therefore be interpreted as an erosion of its reserves and a relative weakening of its financial position. Notwithstanding considerations mentioned in detail by the staff that could be used to argue for a reduction of the Fund's gold holdings, we feel that further use of gold should not be considered under the current circumstances of rapidly rising demand for Fund credit. The Mexican crisis has shown that the ability of a country to service its foreign debt obligations can deteriorate rapidly. The possibility of a country becoming insolvent and unable even to pay its obligations to the Fund cannot be excluded. This risk and that of running into a liquidity shortage has increased for the Fund with the concentration of its credit portfolio in a few countries. In this setting, the maintenance of the Fund's reserves is crucial to preserving its financial stability and credibility and enabling it to pursue its role.

The fundamental problem with the sale of part of the Fund's gold holdings is that it sets a precedent. Having decided once in favor of gold sales for a specific purpose, such as that mentioned in the context of financing ESAF operations for an interim period, appetite could easily be whetted for using this source for other purposes. Freeing this source of untapped financial resources could therefore lead quickly to a substantial reduction of the Fund's gold holdings and to an erosion of its reserves.

Ms. Lissakers said that she was not convinced by the argument put forward by Mr. Schoenberg and Mr. Cippa--namely, that selling even a modest amount of gold risked embarking on the path to perdition--especially as the Fund had previously sold gold without falling to an overwhelming temptation to tap that reserve again and again. She did not think that the institution or its members were any less responsible at present than they had been more than a decade earlier.

Mr. Schoenberg observed that earlier gold sales had been conducted in the context of an amendment of the Articles and in very different circumstances.

Ms. Lissakers remarked that the Second Amendment had also made available an instrument and policy option, namely, future gold sales. The fact that that option had not been exercised did not justify an unwillingness to look seriously at the relative costs and benefits of selling some part of the Fund's gold in current circumstances.

The Chairman observed that the high majorities for amending the Articles and for selling gold offered important protection against the Pandora's box syndrome.

Mr. Schoenberg said that he believed that the sale of gold by the Fund under current circumstances would be interpreted by the markets as a sale of the family silver.

Mr. Dlamini made the following statement:

We commend the staff analysis, which is balanced, given its broad approach. The overall conclusion seems to be that the justification for the Fund to continue holding gold is based purely on prudential grounds, as strict financial considerations favor the sale of its holdings, given the considerable carrying costs of holding gold.

However, in our view, the issue is not whether the Fund should shift from gold as a major component of its assets. We would, in fact, support the call for caution and prudence in the Fund's approach to the use of its remaining stock of gold. At the same time, we would argue that the Board's decision on the

Fund's gold holdings should strike a reasonable balance between the desire to maintain a strong financial position and the need to fulfill the Fund's mandate to its entire membership.

Our recent discussion on aid flows has revealed the precarious situation in which many low-income developing countries find themselves in the aftermath of the Cold War. Inadequate financing arising from the declining trend in bilateral official assistance is poised to weaken adjustment efforts unless access to the concessional windows of multilateral financial institutions, including the Fund, is increased. The use of gold has often come into focus whenever the Executive Board considers options for Fund support for concessional lending to its lowest-income members which demonstrate sustained commitment to a strong adjustment program, but no workable agreement has yet emerged on this issue.

It would be relevant to refer to the call by the Group of Seven industrial countries, during their meeting in Naples last year, on international financial institutions to explore ways of effectively mobilizing their own resources to support the adjustment efforts of the poorest, most indebted developing countries. In this context, the U.K. Chancellor of the Exchequer, in his statement to the Interim Committee on October 2, 1994 in Madrid, made concrete proposals on the sale of the Fund's gold to support concessional ESAF lending. This appears to be a viable option to making ESAF a self-sustaining facility.

We believe that the sale of a limited amount of the current stock of the Fund's gold along the lines suggested by the staff and Chancellor Clarke could provide needed resources to support the adjustment efforts of the poorest, most indebted member countries, without impairing the strength of the Fund's financial position. The profits from the sales are expected to be invested, and only the income from such investments would be applied to funding concessional lending in a manner consistent with the provisions of the Fund's Articles of Agreement. I would emphasize that such a sale would be limited in amount and, if carefully phased, would avoid precipitating major declines in the world market price of gold. This issue should be revisited, and we call on the Board to give further consideration to this viable option.

Mr. Schilthuis made the following statement:

This chair welcomes the staff paper and agrees with the staff's conclusion and with other speakers that it is difficult to specify the "optimal" or right level at which the Fund should maintain its gold holdings. An important argument in favor of gold holdings is the confidence that gold still enjoys over

fiduciary money. Gold maintains its traditional value as an "ultimate monetary reserve" in the eyes of many, both for rational and emotional reasons. As guardian of the international monetary system, the Fund needs some kind of capital whose value is insured even if a serious crisis occurs. Although the chance of such a serious crisis might be small, what matters is that developments are unpredictable, and I agree with the staff that it is therefore best to err on the side of caution when judging the optimal size of gold holdings. Thus, it is wise for the Fund to hold an ample stock of gold reserves for "worst case" situations.

We should take into account that since the abolition of the official monetary role of gold, its role has become, even more than under the Bretton Woods system, to give confidence to member states that in true emergency situations their assets in the Fund are secured. The fact that gold is available in case of the need to meet creditors' claims on the Fund in the event of liquidation, is, however, not an exclusive feature of this asset. If gold were to be partly substituted by currency holdings, these would also be available to encash members' reserve positions in the Fund or claims arising from Fund borrowing. However, the comparative advantage of gold lies in its intrinsic value and historic role as a reserve asset.

Having said that, this chair attaches a specific value to gold as a Fund reserve compared to other assets, a sound judgment on the merit of any amount of gold sale can be made only after a careful consideration of the alternative goals of the gold sales. We could in principle agree with selling a part of the gold stock if convincing arguments were given. Nevertheless, any selling of gold should not amount to more than a change in the composition of the Fund's reserves.

Thus, as most Directors have already noted, the direct proceeds from gold sales should remain in the Fund to keep the level of the Fund's reserves unchanged. Therefore, only the use of the investment income resulting from gold sales can be considered.

We agree with the staff that the sale of gold entails a practical problem because of the thin and volatile gold market. Any gold sale would, ceteris paribus, put downward pressure on the market price. Apparently during the late 1970s, when the Fund sold one third of its gold holdings and there was no significant decline in gold prices, other forces were at play, which shows that the ultimate price effect depends on a specific set of circumstances.

A final point is that it might be useful to have some further analysis on the composition of reserves, including the valuation of gold.

Mr. Giulimondi made the following statement:

Let me join other speakers in commending the staff for a comprehensive and interesting historical analysis. Unfortunately, the staff paper does not and cannot provide a clear-cut answer to the basic question of the optimal or "correct" level at which the Fund should maintain its gold holdings. However, it provides significant clues in order to attempt a preliminary assessment of both the desirability and the appropriateness of a possible bolder approach by the Fund in its reserve assets policy.

Some arguments, which theoretically have a great appeal, seem to point to the desirability of greater flexibility in the use of gold as a reserve asset. The sale of gold by the Fund could improve its overall financial position, as it would replace a non-interest bearing, prone-to-depreciation-risk asset with more liquid, diversified, and profit-yielding securities. This adds to the attraction of the idea that a liquidation of part of the gold holdings by the Fund would represent a better portfolio allocation and would increase the Fund's overall standing. However, let me add that, for this to be true beyond dispute, both profits from the sale and interests from investment should be substantially retained by the Fund.

This is the theory. Unfortunately, we believe that in the real world the risks associated with an innovative Fund gold policy would be significant. I would like to touch upon three issues, in this difficult exercise, which, in our view, may turn the scales in favor of a conservative strategy as concerns Fund reserve assets.

The first is that any disposal of gold, even though in the form of a reinvestment of the proceeds from gold sales, may result in erosion of the Fund's assets and in impoverishment of the creditworthiness of the institution, as the proceeds from the sale, or the profits from investment of such proceeds, might be dissipated by losses on loans financed from the gold-sale operation. This would be anything but theoretical, as the reduction of gold holdings would be occasioned precisely by the need for financing additional Fund loans. It is true that a careful management of these profits would allow the containment or even avoidance of any loss; however, proceeding with caution could result objectively difficult and, in any case, we would witness a medley of somewhat conflicting functions in the same financial instrument, which would be supposed to act as a

reserve asset to offset possible risks and, in the meantime, to provide additional financing for risk-bearing financial operations. I think that the unique role of the Fund as the lender of last resort of international monetary system liquidity, as well as the special character of, and particular risks associated with, the loans which would be fed by gold sales proceeds, recommend an asset portfolio management approach far more conservative than the one that could be deemed as theoretically desirable for a market financial institution.

The second concern relates to the impact of Fund gold sales on the market. Hypothetical sales should be characterized by complete anticipation and preannouncement, full transparency, a high degree of coordination with possible analogous central banks' operations, and limited size. Only in presence of all these factors are adverse effects on the price of gold likely to be limited. However, these conditions may be difficult to attain. In particular, determining the correct size of the sales would be especially difficult. Moreover, any adverse effect on the market would clearly have a negative impact on the value of central bank gold holdings. The role of gold as a reserve asset is increasingly challenged, as gold is intended all the more by economic agents as a traded good rather than an investment good. The disposal of gold from this institution, especially in considerable amounts, may have a powerful effect on market agents in reinforcing this trend.

The final concern is this: market perception of the Fund's unique role in the international monetary system is crucial, both with respect to the perception of the Fund's ability to protect members' reserve positions and as regards the Fund's function as a last-resort guarantor against unforseen contingencies. This perception could be magnified by the hypothetical sales of gold being clearly matched to ESAF financing operations, that is to operations which, although certainly important, may be read as only partly responding to the primary role of the Fund as a monetary institution.

In conclusion, the usefulness of gold sales per se, and their relative size, should be prudently assessed against the special market risks that such operations might generate and against the unique role played by the Fund in the international community. Moreover, drawing on, or even simply modifying, Fund reserve assets to pursue one particular goal, in this case, ESAF financing, might conflict with other broader objectives of the Fund as the ultimate defender of confidence in the international monetary system, thereby giving rise to a very delicate policy dilemma.

Mr. Guzmán-Calafell made the following statement:

The role and use of gold in the Fund has traditionally been a matter of controversy. The numerous discussions held in the Board in this respect, and the difficulties in agreeing on the specific course of action to be followed, are a clear indication of the complexities that surround this issue.

The staff paper presents an informative description of the policies that the Fund has followed with respect to the sale of its gold, as well as an interesting analysis of the main benefits and costs to the Fund of holding gold. This provides a useful list of the basic elements that must be considered when trying to determine the approach that the Fund can take in defining an adequate policy on gold.

It seems clear that the point of departure in the design of Fund's policy on gold should be the evaluation of its contribution to the achievement of the institution's central objectives. Decisions on the use of the Fund's gold must be backed by the general support of the membership. This would not be possible in the absence of a policy clearly aimed at goals consistent with the Fund's basic mandate.

When evaluating the possibility of using the Fund's gold, a careful analysis must be made of the alternative options available, other than the use of gold, to achieve the desired objective, and of the advantages perceived in the use of gold for this purpose. An important related aspect is whether, and to what extent, the use of the Fund's gold, if considered desirable, should be supplemented by other sources of financing in seeking the objectives set.

The implications on the financial strength of the Fund are an essential element in defining the Fund's policy on gold. One of the central issues is whether the financial position of the Fund is strengthened by the sale of its gold or by holding it. As the Fund's gold holdings tend to be perceived as the institution's basic reserve, I agree with the staff that it is better to err on the side of prudence in this area.

Some concern has been expressed about the possibility that allowing the use of Fund's gold for one specific objective could result in demands for its utilization for a number of other different purposes. Obviously, satisfying these demands would not necessarily be feasible or desirable. Nevertheless, it is important to note that this is not an argument against the sale of gold in the Fund, but rather in favor of a thorough evaluation of the advantages and disadvantages of the actions to

be taken in this regard, and of the criteria on which the implementation of these measures would be based.

Prudence in the use of Fund's gold is not only related to the implications this could have on the institution's financial strength. As the paper points out, sales of gold by the Fund may have a significant impact on a narrow and volatile market. The potential effect of the decisions taken in this area on other market participants is thus another important factor to keep in mind when deciding on the use of gold in the Fund.

A number of additional elements can be considered in trying to shape an appropriate policy for the use of Fund's gold. But, even with an exhaustive list, it would not be possible to arrive at a general recipe to support or reject ex ante the sale of a portion of the Fund's gold holdings. Each proposal in this respect needs to be considered on the basis of its own characteristics and merits, with an open-minded approach, and within a framework that gives careful consideration to the implications for the Fund and its member countries. In this process, we must also give due weight to the costs associated with inaction. Like other Directors, I look forward to further work by the staff on means to improve the use of Fund's assets.

Mr. Autheman made the following statement:

I am in broad agreement with the judgment that, when dealing with "an essential component of what might be thought of as an ultimate reserve, the Fund must err on the side of prudence." I therefore share the views expressed by Mr. Mesaki and Mr. Schoenberg.

I would like to challenge the cost-benefit approach, which I do not think is fully relevant in this case. First, as Mr. Schoenberg mentioned, we are not recording all costs, such as the implicit cost of renouncing the unremunerated reserve tranche.

Second, what would be the alternative benefits? I think that they are somewhat overstated. Mr. Clarke points to the possibility of investing in assets with a higher return. Several speakers made the same comment. Which assets do they have in mind? Is it the Japanese yen or the Swiss franc? It would have been interesting to elaborate on this.

Mr. Shaalan observed that a representative basket of currencies, such as the SDR basket, could be easily created for investment purposes.

Mr. Autheman, continuing his statement, said:

> Moreover, I have noticed a contradiction between the proposal to divest gold in order to invest in higher-return assets and the proposal to use the income for spending purposes. If we use the income from the sale of gold to cover expenses of a budgetary nature, such as subsidizing the ESAF, the result of a change of policy will not be increased returns on our assets, but rather a permanently lower return, as the future return of gold is unknown; but the future return of the new assets certainly would be zero. We must be consistent.

Mr. Shields stated that he was somewhat surprised by Mr. Autheman's argument. Experience showed that the nominal price of gold could go down as well as up.

Mr. Mirakhor said that there were also hidden benefits to be considered. For example, countries receiving Fund assistance through the ESAF could help strengthen the global economy as they achieved higher levels of growth.

Mr. Schoenberg commented that Mr. Shields was correct in saying that the future return on gold could not be predicted with certainty. All things being equal, gold prices could be expected to remain constant in real terms, or at least to remain inflation neutral. It was certain that nominal zero return on the investment of the proceeds of gold sales meant a negative real return on those assets and a decline in the Fund's assets.

Mr. Waterman observed that the concerns of Mr. Schoenberg and others might be addressed by calculating the income flow from the sale of gold that would have to be put aside to ensure that reserves were kept at the same level they would have attained if there had been no sale of gold.

Mr. Autheman, continuing his statement, said:

> To answer Mr. Shields, we have to make a choice when considering the alternatives. Either we follow Chancellor Clark or we follow Executive Director Clark, but we cannot agree with both of them. In the long term, our colleague Clark may be right, but if we follow his advice, we have to abandon any prospect of using the income of alternative assets for current spending.
>
> Another point that we should not forget in considering the opportunity cost of holding gold is that we can sell gold, but we cannot buy gold. If we opt for sales, we decide to permanently reduce our holdings.
>
> This issue is related to the exceptional nature of gold, which is not fully captured in the five arguments presented in

the staff paper, or, if it is, is done in an elusive manner. What do we mean by "ultimate reserve?" We mean a reserve that will keep a certain and liquid value in all circumstances. Its value is limited when monetary assets are reasonably valuable; but unique valuable assets in exceptional circumstances are impossible to foresee--for instance, a third world war, or circumstances that we hope will never occur. If one takes a secular approach, history tells us that we will not always live in as peaceful a world as we are living in now.

Mr. Shields observed that during the past few perturbations in the world economy, gold prices had not responded positively but had weakened. The emotional argument notwithstanding, the present value of gold in those circumstances had suffered relative to other assets.

Mr. Autheman, continuing his statement, said:

I agree that Mr. Shields might have raised this objection in the late 1960s. He might have pointed that the price of gold did not rise during the Korean War, and therefore foreseen that it would not rise in the next ten years. But we were unable to foresee in 1960s what occurred in the 1970s, and I consider that we cannot draw any lesson from the behavior of the gold price during the last 20 years, with respect to its behavior in the next 20 years, because the long-term prospects to which the evolution of the value of gold are related cannot be related to any long-term prospect in monetary asset markets. I tend to believe that as long as central banks are able to maintain confidence in their anti-inflationary stances, we should not expect a significant rise in the price of gold. But if, as happened in the early 1970s, because of external shocks or other reasons, investors were to lose confidence, gold might become attractive again as an ultimate asset. It seems important that an institution as deeply dedicated to monetary stability as the Fund should take into account this possible behavior of international markets in an unforeseeable future.

Mr. Mirakhor said that, with respect to Mr. Autheman's last argument, he wondered why central banks in a number of countries, including France, were continuing to reduce gold holdings in their asset portfolios.

Mr. Autheman observed that those central banks whose commitment to price stability was the strongest appeared not to be following that pattern.

Mr. Schoenberg said that perhaps the question was: why were central banks holding gold reserves? The answer to that question would point to the different functions and objectives of central banks compared to commercial banks, which were exclusively return oriented.

Mr. Mirakhor observed that according to Table 3 of the staff paper, the central banks of the United States, Germany, France, Italy, the United Kingdom, and Canada had reduced the size of their gold holdings at the end of the year.

Mr. Autheman commented that the staff should have been more explicit in that table; several European central banks had, in fact, transferred their gold assets to the European Union.

Ms. Lissakers commented that Mr. Autheman had, in a way, explained why a market-oriented society clung to the pagan symbol of gold. He was perhaps correct in arguing that gold holdings had to be viewed in terms of their value in a time of extreme shocks to the world economy. Nevertheless, it was valid to ask whether it was necessary to retain the Fund's stock of gold at a level currently equivalent to 73 percent of outstanding loans, or whether it might be possible to preserve that core asset at a somewhat lower ratio to outstanding liabilities without jeopardizing the long-term survival of the institution.

Mr. Shields commented that the more Mr. Autheman stressed uncertainty, the more he felt the need for some diversification, at least, in the Fund's asset portfolio.

Mr. Autheman, continuing his statement, said:

> I agree with Ms. Lissakers. The reasons that central banks are still holding onto this "barbarian relic"--as a famous French statesman, who was a great believer in gold, said--are partly unknown. Perhaps it is because the long-term perspective is not fully known.
>
> I was grateful to the staff for the reference to the 1980 discussions on gold. I would like to refer to the conclusions of the Governors at the 1980 Interim Committee meeting, when they stated that "further sales should be undertaken only to promote the purpose of the Fund in ways that commend the broadest possible consensus among the Fund's membership."
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> This leads me to identify two conditions for considering possible sales in the future. The first is the broadest and most obvious consensus between the Fund and its shareholders, so that the legitimacy of this decision will not raise any suspicion outside the Fund. The Fund should be confident that it will not run the risk of difficult parliamentary debates in some countries. The second condition is the imperious need to sell gold in order to achieve goals that are broadly recognized as being of an essential nature. I do not find that these conditions are presently being met.

As to the specific proposal on the use of gold, I think that Mr. Schoenberg is right in saying that gold sales should not be a substitute for aid flows. As Mr. Mesaki rightly points out, in those circumstances, gold sales would be a deterrent to aid. It would be difficult to convince parliaments to continue to provide subsidies to the ESAF Trust Account if other parliaments had succeeded in substituting Fund gold for their own subsidies. We should keep a dynamic approach to that issue. The point is not only to replace missing subsidies with gold sales, it is also to prevent remaining subsidies from being canceled. Moreover, I consider that in this scheme the capital value of the Fund's reserves would not be maintained. We would be opting for a certain decline, as we would replace unknown, possibly negative, income with a definite zero income.

Mr. Al-Jasser made the following statement:

The Treasurer's Department has produced a comprehensive and interesting paper. The historical background on the role of gold in the Fund is especially informative. Moreover, the paper highlights the cautious and prudent approach by the Board and the Interim Committee when the issue of gold sales was discussed in the past. This prudent approach is perhaps best captured by the Managing Director's report to the Interim Committee in 1980 on the Board's discussion on this issue, as presented on page 13 of the staff paper, and the inability of the Interim Committee to reach consensus on gold sales at that meeting. This approach, which was appropriate then, continues to be appropriate today, for several reasons.

First, the integrity and strength of the Fund's financial position are its greatest asset. It is this integrity that underpinned the Fund's ability to catalyze and mobilize resources on a large scale when the need arose. Gold holdings are the backbone of such financial strength and integrity as they represent, as noted in the staff paper, the Fund's basic or ultimate reserve. Here, an argument could be made that selling gold and placing the proceeds in an investment account should equally preserve the financial integrity and reserve position of the Fund. On its face, this appears as a reasonable and valid argument. In practice, however, we all know how pressures to expand activities build up when there is a large pool of liquid resources seemingly sitting idle. We are already feeling such pressures to enhance our lending activities and stretch to the limit the catalytic role of the Fund. One of the main arguments for such expansion is that the Fund has the resources and therefore should use them. Thus, even if the proceeds of gold sales were placed in an investment account, this could still be perceived as a precursor of increased exposure and, consequently a weakening of the reserve cushion of the institution.

Second, in addition to the negative impact of gold sales by the Fund on global supplies and, consequently, on the price of gold in the short run, the signalling effect of such a sale could have a stronger and more lasting impact. If the financial markets perceived that the Fund is abandoning gold as a reserve asset, that could possibly trigger a crisis in the gold market, especially given the level of derivative trading in this market. Such a scenario would not only reduce the Fund's profits from the sale of gold, but could also have substantial negative consequences for both central banks and the private sector, not to mention the impact on countries that are major gold producers. These considerations have to be evaluated carefully.

Third, it is an indisputable fact that the sale of gold and the investment of proceeds would improve the cash flow position of the Fund in the short run. It is also a fact that gold as an investment has underperformed short-term investments in SDRs during the period 1980-95. However, one could not infer from the above that the Fund would gain financially in the longer term from the sale of its gold. Indeed, as the staff rightly points out, "On the basis of strictly financial considerations, the sale of gold by the Fund could be expected to improve its overall financial position only as long as the expected future interest rate of the SDR exceeds the expected price increase of gold." It is not clear that this will be the case, as evidenced by the continued willingness of central banks and the private sector to hold substantial amounts of gold.

In conclusion, I agree with the staff that "only very powerful reasons of a lasting nature can justify a departure by the Fund from the practices of other official gold holders." Clearly, we have a great deal of thinking to do, including about what John Maynard Keynes has called the "symbolic value of gold." In an essay entitled "The Return to Gold" Keynes stated that, "Dr. Freud relates that there are peculiar reasons deep in our subconsciousness why gold in particular should satisfy strong instincts and serve as a symbol." There must be careful consideration of this symbolism and the reserve cushion of the Fund, hidden and unhidden, before we can really come to the consensus that was alluded in the 1980 report to the Interim Committee.

Mr. Kiekens made the following statement:

The staff has provided a well-balanced paper on the role and use of gold in the Fund. It begins with a historical account of the role played by gold before the adoption of the Second Amendment to the Articles of Agreement. This historical review broadens our understanding of the systemic and financial

considerations that underlie the Fund's continued holding of gold.

As the staff notes, the issue of whether the Fund should continue to hold gold is a matter of judgment between numerous arguments both for and against disposing of the Fund's gold. The staff's presentation of these arguments is balanced and thorough. I will not elaborate on them further, but will attempt to extract some principles to guide us in any eventual utilization of the Fund's gold.

The Fund's strategy with respect to gold should take account of the changing role of gold in the international monetary system, particularly since the adoption of the Second Amendment. Although these changes would seem to call for greater flexibility in considering the disposition of the Fund's gold, it would be unwise during the present period characterized by great uncertainties and large demands on the Fund's resources to totally remove such an important pillar of the Fund's financial strength.

Moreover, as the staff suggests, the Fund's policy with respect to gold should also be closely linked to the policies of the official holders of gold, namely, the member countries of the Fund. In this connection it should be borne in mind that since 1980, the share of gold in the Fund's General Resources Account has shrunk faster than the share of gold in the total foreign reserve assets of its member countries--and even faster when compared with the total foreign reserve assets of the industrial countries, even though some industrial countries have recently begun adopting a new approach, selling some of their gold holdings in order to obtain a better yield from their assets. It is to be noted that their actions have apparently not produced any accompanying decline in the price of gold.

In addition, potential sales of gold should be looked at in a broad perspective, including both prudential and financial considerations. Here, the staff adduces two kinds of arguments, which are not necessarily altogether incompatible. If the profits from gold sales are invested in interest-bearing assets of the Special Disbursement Account, and if only the revenues generated by those assets are transferred to the General Resources Account, the credibility of the institution might not be affected, which means that the Fund's credibility as a mainstay of the international monetary and financial system, and its ability to react rapidly to unforeseen difficulties as the system's last safeguard, will not be damaged. In this context, we would also be interested in the staff's comments on Ms. Lissakers's question about the relative merits of the Special Disbursement Account and the Investment Account as

investment vehicles for the capital gains realized on gold sales.

We do not agree with the staff's argument that in order to fully assess the impact of gold sales, it is necessary to take into account the indirect positive effects of financing potentially beneficial activities, such as the creation of a new facility or the extension of an existing facility. Indeed, we believe that it is more appropriate to evaluate the merits of new activities on the basis of their objectives rather than on the basis of their financing mechanisms.

In conclusion, I prefer to continue exploring ways for the Fund to adopt a more flexible, but still cautious, approach to its gold holdings. I must, however, acknowledge that the issue is still controversial among the membership and even among the members of my constituency. The Austrian authorities, for example, remain strongly opposed to any sale of gold by the Fund. I agree with Mr. Autheman that on this sensitive issue, a broad consensus is necessary, not only to satisfy the Articles of Agreement, but also to avoid any confusion in the markets about the future policy of the Fund.

Mrs. Cheong observed that no Director had mentioned removing gold as a pillar of the Fund's reserves. Rather, some had suggested that there should be an objective study to see what would be the optimal level of gold holdings in the Fund's reserves and whether there should be any sale of gold for funding the ESAF or other objectives as specified in the Articles. If the Fund, which was at the apex of the monetary institutions, could not act because of concerns about the impact on key shareholders, that would be a case of the tail wagging the dog. As to "pagan gold," more consideration seemed to be given to gold's symbolic value than to trying to see how it might be used to help member countries. Although countries, even developing countries, valued gold for its intrinsic qualities, at the end of the day, it was the bread-and-butter issues that should really matter.

Mr. Al-Jasser remarked that Mrs. Cheong had raised an important issue, namely, the context for a discussion on the Fund's gold. A further discussion might focus on the Fund's precautionary balances and on gold as part of the Fund's reserve cushion.

Mr. Bergo made the following statement:

The staff paper is a useful starting point for a general discussion of the role and use of gold in the Fund and the principles on which these should be based. While it is entirely appropriate that the Board should now review the gold in the Fund, I would nevertheless advise that we approach the issue with considerable caution. Not that we should not aim at reaching conclusions, but we should not rush to them. The issue

is a complicated one where arguments have to be carefully examined and weighed. The arguments put forward in the paper for retaining gold, as well as those relating to the costs of holding gold, are both relevant aspects that need to be taken into account in forming an opinion on the holding and use of gold in the Fund. Ideally, a discussion of the Fund's gold, as well as its other financial reserves, should take its departure from an understanding of the role of the Fund. We are in the process of clarifying the future role of the Fund. Only then will we have the full background to make the best decision on the Fund's financing and reserve needs, including the role of gold in the Fund.

As long as we are operating within the confines of the present Fund--and, frankly, I have difficulties conceiving of any future Fund where this would not be the case--its monetary character must be emphasized, as is rightly done in the paper, whenever discussing its financial resources and need for reserves. In this situation, my constituency's previous positions, both as regards the need for the Fund to have a strong financial position and to ensure that the reserve policy adequately reflects the increased uncertainties involved in the Fund's lending policy, are still valid. This argues for the gold to be retained in the Fund. Furthermore, if any sale should be contemplated, for example, for portfolio management reasons, the proceeds must be kept in reserves. Our position during the discussion on precautionary balances, regarding "ordinary" reserves, still holds: the level of reserves in the General and Special Reserves and the first Special Contingent Account is not too high; rather, the ratio of these reserves to lending should preferably be brought back toward their levels prior to the recent Mexican crisis.

Let me make some further observations in support of caution, echoing remarks made by Mr. Schoenberg, Mr. Mesaki, and others. First, at a time when Fund lending is exposed to increased risk, any sale of gold where the proceeds are not kept in reserves would eventually have to be compensated by increasing the regular reserves, which in turn may imply that charges on Fund lending will be raised. I also share their concern that embarking on even modest sales of gold might open the way to further gold sales, which may then ultimately negatively affect the financial position of the Fund.

Furthermore, even with the strongest and best intentions of keeping the proceeds from gold sales in reserves, it appears that the present Articles do not guarantee that decisions might not be taken at a later stage to dispose of the funds in other ways, and with smaller required majorities than the sale itself requires. This is the problem to which Mr. Shields

referred--how do we keep our hands out of the cookie jar? I would appreciate the staff's views on options to safeguard against the use of the proceeds for anything other than reserve purposes.

We strongly hold the view that the value of the present gold holdings must be retained in the Fund, either as gold or so that the full amount of the proceeds is held as reserves. If, however, portfolio considerations clearly and strongly support some sales of gold, the question will arise as to how to dispose of the income from the proceeds. It could be added to the reserves. At the same time, however, as a decision to sell for portfolio reasons must rest on an assumption that the sale would increase the expected net income to the Fund, compared with that from continuing to hold the gold, there would be an expected additional income, which, arguably, if one deemed the reserve situation comfortable, could be used for other purposes. I believe this was also the point that Mr. Waterman was making. It might be desirable to decide on the specific use of the income at the time a sale might be agreed, in order to avoid a proliferation of good causes seeking financing from this source.

In concluding, I would like to stress that we still are at a preliminary stage in the discussion. At this stage the views on gold sales differ in my constituency. Most of the countries in the constituency have reservations--although in varying degrees--regarding the sale of gold, even if it were portfolio motivated and the proceeds held as reserves. One country takes the view that, for prudential reasons, no gold should be sold. Another country supports limited gold sales for the benefit of some of the poorest countries, as long as only the income earned from investment of the proceeds from gold sales is used and no restitution takes place.

Mr. Mozhin made the following statement:

I welcome this opportunity to present my authorities' views on the sensitive matters related to the role and use of gold in the Fund. My task is greatly facilitated by the excellent staff paper that provides us, inter alia, with a wealth of important background information on the evolution of the role of gold in the world and in the Fund over the years. As indicated in the staff paper, consideration of this subject has been precipitated by interrelated questions raised by Executive Directors during recent Board reviews of Fund policy in three important areas, including the financing of the Fund's operations (EBM/95/28, 3/24/95), the adequacy of the Fund's prudential balances (EBM/95/24, 3/15/95), and ways to alleviate the situation of heavily indebted low-income member countries (EBM/95/39, 4/12/95). It is my understanding that the goal of

our discussion today is to clarify whether it is now feasible to do anything either with or about the Fund's gold holdings, in order to achieve progress in dealing with these other issues facing the Board.

In this context, I note that in the past the Executive Board considered it undesirable to take ad hoc decisions for particular uses of gold that might be based on too-narrow grounds. As wider policy implications must be carefully weighed before any decisions regarding gold are made, we support management's cautious approach inviting us to deal with these issues in a comprehensive way. I shall focus my remarks on the underlying objectives of such an exercise, the proposed ways to achieve them, and the practicality of certain actions that may be considered with regard to the various uses of the Fund's gold.

It should be stated from the outset that we would not favor any policy option concerning the Fund's gold that would undermine the strength of the Fund's financial position, both in the short and in the long run. Thus, we would regard "restitution" of gold at the price of SDR 35 per fine ounce to all members that joined the Fund before August 31, 1975 as undesirable. Such action would wipe out the Fund's largest, although hidden, reserve, amounting to some SDR 20 billion, which represents the perceived financial gain resulting from a seven-fold appreciation of gold in SDR terms in private financial markets vis-à-vis the Fund's old official price for gold.

Against the background of the diminishing role of gold in official international transactions since the early 1970s, the idea of realizing a portion of the aforementioned financial gain could be an attractive way of reducing the costs to the General Resources Account of gold holdings by about SDR 180 million a year, and mobilizing the required financing for several valuable initiatives in the Fund, particularly at a time of fiscal stringency in the majority of donor countries. However, this should also be viewed in the context of the recently accelerated pace of official sector sales of gold and the falling popularity of gold with private investors, owing to a considerable reduction of inflationary expectations in industrial countries. As the annual flow of world demand for gold is presently almost exclusively driven by fabrication of demand, a decision by the Fund to sell 10 percent of its gold over two to three years, as suggested by Mr. Clark, could seriously disrupt the market by changing investor and central bank sentiment and triggering sales of their gold holdings, which are presently equivalent to more than 20 years of new supply or consumption in the world. Besides, 10 percent of the Fund's gold holdings represents about

322 metric tons. Sales of gold on such a scale would be slightly more than the average annual mine output in 1991-93 of the second largest producer in the world, namely, the United States.

The staff convincingly argues that the virtues of holding gold lie in maintaining the confidence of international financial markets in the strength of the Fund's overall financial position and providing assurances against unforeseen contingencies through a so-called de facto international financial safety net. Thus, the Fund's gold holdings are appropriately placed by the staff in the context of the Fund's overall precautionary balances, which is remarkably close to our long-held view in this respect. As has been previously pointed out by this chair, costs that derive from the Fund's non-interest-earning gold holdings should not be regarded as ordinary operational expenses, because they cannot be attributed to individual borrowers. Instead, they represent the general costs of financing the Fund's operations and would need to be financed by all members under the future system.

On balance, the above considerations lead me to conclude that, for the time being, the least controversial way for the Executive Board to deal with gold-related issues and, it is hoped, find financing for alleviation of the debt burden of the poorest members would be, perhaps, to undertake the following steps: to change the Fund's method of valuation of gold by delinking it completely from the old official price, to reflect the most recent true and fair value of this asset in the Fund's financial statements; to consider selling a very small part of the Fund's gold outside private markets, for example, to the ESAF Reserve, which currently does not hold any gold, or to prospective official buyers, keeping most of current gold holdings intact in the General Resources Account to protect the Fund against future uncertainties; to regard the costs of holding gold as a part of long-term prudential expenses of the Fund; and to use part of the Fund's net income for financing the future operations of a self-sustaining ESAF, as the change in the method of valuation of gold in line with the requirements of generally accepted accounting principles would allow the unification of the price of gold used for asset valuation in the Fund and recognize the huge financial gain in the Fund's accounts, concomitantly diminishing the need to continue to accumulate precautionary balances at a high pace.

In any event, I share the view that a very cautious approach in considering all options pertaining to gold in the Fund will be necessary.

Mr. Barro Chambrier made the following statement:

I have found the staff paper on the role of gold in the Fund very informative, especially the sections on the operational framework as well as the review of Fund policies relating to the sale of gold. In this context, while I have found the paper's description of past use of gold to be comprehensive, like Mr. Mirakhor and Mr. Zoccali, I think that the paper would have been more useful if it was more forward-looking.

I share the view that the Fund's financial integrity should be fully preserved. In that respect, I have noted carefully the staff's arguments regarding the costs and benefits of either holding or selling gold. However, it would appear that if the proceeds from gold sales are kept as reserve, or are invested cautiously in income-generating assets, as Ms. Lissakers and Mr. Clark explain, these could actually enhance the "credibility- rating" of the Fund and improve significantly its financial resources. In this respect, it would be quite informative, if the staff in a follow up paper, could provide some scenarios regarding the different ways gold proceeds can be safely invested.

I share the views expressed by some speakers that the amended Articles give us the guidelines to make a prudent use of gold to enhance the Fund's resources. One possibility, as has been suggested by the Managing Director, would be to use the income generated through a partial sale to finance a "self-sustained" ESAF, and it would be useful if we could start to explore ways on how this could be done. However, I have noted Mr. Autheman and Mr. Mesaki's caution on this approach and believe that their arguments should be carefully weighed. Nevertheless, I would also like to add that this in no way reduces the urgency of increasing the Fund resources through more traditional ways, such as quota increase and allocation of SDRs. These avenues will have to be continued to be explored.

In conclusion, it would appear that the more relevant issue that needs to be addressed is "what is the optimal composition of the Fund's asset portfolio," as Mr. Clark so aptly puts it. Without a decision on this important issue, further progress on the use of gold might prove to be difficult.

Mr. Kafka made the following statement:

This paper correctly sets out the conflicting arguments regarding the benefits of holding on to our gold versus selling some or all of it.

It is suggested in Annex VI that moderately sized regular gold sales would, over time, have left the Fund much better off than would holding on to our gold. Such regular sales would also be unlikely to substantially affect the market price. These are strong requirements for rearranging our portfolio of assets.

We are, therefore, in broad agreement with the conclusions of Ms. Lissakers and Mr. Clark. Obviously, the matter requires further consideration. Except perhaps for some minor sales in support of the ESAF, it is not an urgent matter, but we should try to come back to it after the Annual Meetings.

Mr. Wei made the following statement:

At the outset, I would like to join previous speakers in welcoming today's discussion of the issues related to gold in the Fund. The staff paper presents a comprehensive view of the role of gold in the Fund and a chronological description of the advantages and disadvantages of selling gold, which were very helpful.

On the reasons for holding gold, the staff paper outlines four main arguments, probably the most important one being that the sale of a significant amount of gold by the Fund might be taken as an erosion of its reserves and a weakening of its financial strength. While I can agree with the staff that gold is in some sense the Fund's ultimate reserve, which emphasizes the importance of holding as much gold as possible, I have noticed that the current stock of official gold holdings has declined by about 5 percent since 1968. The staff also points out that, as a component of total international liquidity, the relative importance of gold has declined sharply since the late 1960s, falling from over 50 percent of total reserves as of end-1968 to about 23 percent as of end-1994, valued at market prices. In my view, as we will retain the proceeds from the sale of gold, the financial integrity of the Fund would be preserved. In this respect, I agree with Mr. Clark that "as the proceeds could be invested in more liquid, income-generating financial assets, the financial integrity and credibility rating of the Fund could even improve."

Furthermore, looking at the cost of holding gold, the carrying cost to the General Resources Account is estimated at approximately SDR 180 million a year on the basis of the current SDR interest rate of about 5 percent, apart from the opportunity cost reflected in the income forgone on the unrealized value of the Fund's gold holdings in excess of its value in the financial statements.

Therefore, I join many previous speakers in believing that it is time for us to consider selling a limited amount of the Fund's gold. Such a sale could be spread over a period of two or three years, as suggested by Mr. Clark. The impact of such a sale on market gold prices should be negligible. Regarding the issue of how to use the proceeds from the sale of gold, many Directors have suggested that they should be preserved, but the income from the investment of the proceeds could be used to help finance ESAF operations. This proposal merits further consideration. We also expect that the staff will make a further analysis of the aspects of this proposal for our next round of discussions.

The Treasurer, commenting on the role of gold in the Fund's reserves, observed that in one sense, the Fund has no reserves: all its assets of the institution were available to meet its liabilities, and almost all its assets other than gold were fungible. As to the optimal level of gold holdings in the Fund's assets, a quantitative determination was impossible because gold had no predictable value; there would be a clear advantage for the Fund to continue to hold gold if its price increased at a faster rate than the rate of interest on the SDR. Conversely, the cost of holding gold tended to increase as its price fell relative to the rate of interest on the SDR. However, an arithmetic calculation does not suffice as a formal answer as to what is the optimal amount of gold to be held by the Fund.

The debate on that point had raised an issue that had been discussed extensively over the past few years, namely, the optimal level of the Fund's precautionary balances, the Treasurer continued. The Board had so far reached a consensus on an indicative range for precautionary balances--between 5 percent and 10 percent of credit outstanding. Although some Directors had argued that gold holdings should be regarded as an element of the Fund's precautionary balances, the contribution of gold to these reserves had not been quantified, and probably could not be quantified. Such quantification would probably add even more weight to the view that the Fund was accumulating an excessive amount of precautionary balances. In his view, the reserve role of gold was in the eye of the beholder, but that could not be reflected in the Fund's balance sheet.

Returning to the cost-benefit analysis of holding gold, he could confirm that Mr. Mirakhor's calculations based on the footnote on page 21 of the staff paper were correct, the Treasurer stated. Two elements were needed to calculate the cost of holding gold. The first was the cost of remuneration currently paid on balances minus the cost at the reduced rate of remuneration that would result from the sale of gold. That cost was the rate of interest on the SDR and amounted to SDR 1.5 to SDR 1.7 million a year for every 1 million ounces of gold held. The second element was difficult to calculate, namely, the income forgone from the capital profits of every ounce of gold that was sold. That income would flow either to the Investment Account or to the Special Disbursement Account, or could be immediately used in the Fund's operations or transactions. To define that

cost, one had to know where the proceeds would be placed and how they would be used. For example, if the proceeds from gold sales flowed to the Investment Account or the Special Disbursement Account, the income forgone was the current SDR rate. Taken together, it was fair to say that the actual cost of holding gold in its current amount was about SDR 200 million a year.

Mr. Mirakhor said that using the figure given in the footnote, the forgone interest income on the unrealized gain was about SDR 10.5 million, and each million ounces of gold represented remuneration expense of SDR 1.8 million at the present SDR rate and rate of remuneration. Combining the two, the cost was $20 million per year per 1 million ounces of gold, or $2,068 million for the total gold stock currently being held. That figure was almost three times as large as Ms. Lissakers's estimate of $687 million.

The Treasurer remarked that Mr. Mirakhor's calculations would be correct if it was assumed that all the gold stock would fetch the current price of $380 an ounce and that the proceeds would be invested in the Investment Account at an SDR interest rate of 5 percent. While he could confirm Mr. Mirakhor's arithmetic, he could not confirm that would be a reasonable way of handling 103.4 million ounces of gold.

He agreed with Mr. Schoenberg that any cost-benefit analysis would have to take into account the non-remunerated reserve tranche, insofar as it would be necessary to deduct from the net proceeds of gold sales, the costs of the non-remunerated reserve tranche, the Treasurer commented. That would depend very much on what the Board wished to do about the norm in the event of a decision to sell gold. The presumption in the Second Amendment was clear: if the Fund sold more gold than had been agreed at the time of the Second Amendment, the norm would be raised to 100 percent because remuneration expense was being reduced owing to the impact of gold proceeds or the Fund's income would benefit. If, however, the norm remained unchanged--which was a reasonable assumption in the event of modest sales of gold--the proceeds would benefit the Fund as a whole, but creditors would still have unremunerated reserve tranches outstanding or the rate of exchange could be lower than would otherwise be the case.

The third element in the cost-benefit analysis had been noted by Mr. Autheman, namely, how to take into account the real or nominal price of gold over time so as to judge whether holding gold was financially advantageous, the Treasurer remarked. That involved predicting the future price of gold and the future rate of interest on the SDR, and, in his view, no one could with assurance put such predictions to the Board as a basis for operational policy.

Mr. Mirakhor observed that in 1980 the staff had put together a simulation for the period up to 1996. Using the same methodology, the same assumptions, and the same degree of sensibility, the staff could provide a forward-looking scenario.

The Treasurer said that, in fact, the simulation in the annex to which Mr. Mirakhor had referred had used actual data up to 1995, so that the simulation had involved no prediction of gold price developments. That said, if gold retained its symbolic value and attractiveness in circumstances of high inflation, as it clearly had in the late 1970s, one would expect interest rates to rise with gold prices. In that event, the proportionality between changes in the price of gold and changes in the interest rate, especially the SDR interest rate, which was a basket of very short-term interest rates and highly sensitive to anti-inflation policies, would not be expected to change. In that sense, the cost-benefit analysis of holding gold would not alter under conditions of high inflation.

In sum, the cost-benefit analysis of holding gold was not a strict arithmetic calculation, the Treasurer stated. Informal elements of a non-quantitative and qualitative nature also had to be taken into account. Moreover, the financial analysis was totally dependent on the relationship between changes in the price of gold and changes in the SDR interest rate.

The advantages of investing in the Investment Account versus the Special Disbursement Account depended very much on what one wanted to do with the gold, the Treasurer commented. The Investment Account was explicitly intended to meet the operational and administrative costs of the Fund. There was a limit to the amount placed to it, namely, the level of the Fund's General and Special Reserves. It could be financed either from existing holdings of currencies, or from the proceeds of gold sales. The Investment Account had been originally envisaged as providing the Fund with an income through the use of the Fund's currency assets, because at the time, the SDR interest rate was not a market-related rate and there were benefits to be derived from investing in assets at a market rate when remuneration was being paid at a much lower rate. In current circumstances, where the SDR interest rate and the rate of remuneration were the same, there was no financial advantage whatsoever in using the Fund's currency resources for investment, and the staff had never proposed to the Board to do so. The proceeds of gold sales would be a different matter; they could be invested, but only to meet operational and administrative needs.

The Special Disbursement Account offered much greater flexibility than the Investment Account, the Treasurer continued. It had been used to finance the original Trust Fund after the Second Amendment came into effect, for subsidies for the Supplementary Financing Facility, and to finance the SAF and the ESAF Subsidy Account itself. Any additions to the assets in the Special Disbursement Account could similarly be used for a large number of purposes, either in relation to the General Resources Account for immediate use in operations and transactions, or in terms of supplying balance of payments assistance to distressed developing countries, taking into account their per capita income, or to establish a trust fund of which the capital on the income could be used for helping the low income members.

As Mrs. Cheong had observed, the staff paper did not discuss the proposals put forward by the Managing Director or the U.K. Chancellor of the

Exchequer, the Treasurer remarked. The origins of the staff paper, in fact, preceded the meeting of the Interim Committee where those proposals had first been formally discussed. Last year, the staff had been asked to look at whether the Fund could mobilize its gold to generate income, for example, by entering into the leasing and options market for gold, which, in the Treasurer's view, was a highly speculative and dangerous market. The legal finding at the time, which had been reconfirmed in the current staff paper, was that the Fund could not trade its gold. The staff was then asked to provide a paper describing developments in the Fund's gold policy and developments in the gold markets. The staff paper was therefore intended as an informational paper and was not intended as an analysis of any formal proposals regarding the sale of the Fund's gold.

An important point had been raised by Mr. Bergo, namely, how to ensure that only the income from the investment of gold proceeds was used, the Treasurer recalled. One way would be to put the proceeds into the General Resources Account, where they could be used only for the Fund's formal operational transactions. That would be a somewhat drastic approach, however, as the proceeds and income from the investment of the proceeds would be lost to the GRA and the flexibility that use of the capital value of gold had had in the past, as had seen from the operations of the Special Disbursement Account, would have disappeared. Another approach would be self-restraint by the Board by, for example, agreeing a set of principles regarding the amount of gold to sell and for the use of the capital profits from such sales and sticking with them.

The Deputy General Counsel, commenting on the relative advantages of a placement of resources to the Special Disbursement Account and the Investment Account as well as the applicable majorities, said that a distinction had to be made between the generation of resources and their use, including their disposal upon the liquidation or termination of the accounts. In his answer he would focus on resources placed to the Accounts, that would be derived from the proceeds from a sale of gold. A decision on the sale of gold required an 85 percent majority of the total voting power. The amounts generated would be placed to the Special Disbursement Account.

The Board may decide, by an 85 percent majority, to transfer a certain amount of proceeds to the Investment Account, a separate account in the General Department that had not been activated. Moreover, there was one important limitation: the amounts placed to it could not exceed the level of General and Special Reserves at the time of the transfer; balances in the Special Contingent Accounts would not be taken into account.

The Investment Account had a very limited purpose, namely, investing, the Deputy General Counsel continued. The instruments for investment were the same for both the Special Disbursement Account and the Investment Account--marketable obligations denominated in SDRs or obligations in the currency of the members in which the investment is made. The Articles clearly specified that the investment returns could only be used for conducting the business of the Fund, or that they could be accumulated and

held in the Investment Account. A simple majority was needed to make a transfer to the General Resources Account for conducting the business of the Fund.

As to ensuring the safety of those amounts and that they would not be used for purposes other than those intended, there were two important aspects, the Deputy General Counsel observed. One was the termination of the Investment Account. If the Fund was liquidated, the Investment Account would be terminated and the distribution of resources would follow the rules of the liquidation provisions; in short, the proceeds from gold sales would be returned to those members that had been members on August 31, 1975, most of who had made contributions in gold to the Fund. The Investment Account could also be terminated or reduced earlier. In that event, the amounts would be placed to the Special Disbursement Account, where they would then follow the rules of that Account.

If the Board decided to place the proceeds from gold sales in the Special Disbursement Account, and if they were not immediately used for other purposes, pending use, they would be invested, the Deputy General Counsel explained. While the instruments for investment were the same as those for the Investment Account, there was no limitation on the amount that could be invested. The return on investments could be transferred to the General Resources Account for immediate use in Fund operations and transactions, or could be used for the ESAF for assistance to low-income countries, or for other operations as described in the Articles. The commentary was explicit regarding the use of amounts transferred to the General Resources Account: they could not be used for the purposes of increasing the Fund's income or to help cover a deficit. Therefore, there could be no direct transfer of the investment earnings to the reserves of the Fund, for instance, but they could be used for immediate remuneration payments. That point had been discussed during the preparation of the Second Amendment. The main aspect was immediate use so that currency holdings in the General Resources Account would not be affected.

A transfer of resources from the Special Disbursement Account to the General Resources Account required a 70 percent majority of the total voting power, while a use for purposes of assistance to low-income countries required an 85 percent majority of the total voting power, the Deputy General Counsel continued. There was consequently a hierarchy of majorities. Moreover, the Special Disbursement Account itself could be terminated by a 70 percent majority of the total voting power; in that event, the transfer to the General Resources Account for immediate use was the automatic consequence.

In responding to Ms. Lissakers's concern about safeguarding the proceeds of the gold sale while maintaining maximum flexibility in the use of the income from the proceeds, the Deputy General Counsel observed that it would be possible to place an amount to the Investment Account, and to retransfer it to the Special Disbursement Account prior to liquidating the Fund, which would be the case if the Investment Account was terminated or

reduced by a 70 percent majority of the total voting power. Therefore, there was no guarantee that the amount would stay in the Investment Account.

Mr. Schoenberg said that he would be grateful for a short summary of the potential for generating revenue for the Fund by using its gold holdings without selling gold, irrespective of the legal problems involved.

The Treasurer remarked that the Fund could only sell gold; it could not be used for other purposes. Responding to a question by Mr. Mozhin, he said that the ESAF Reserve was not authorized to trade in gold.

The Chairman made the following concluding remarks:

> This is the first comprehensive discussion on the Fund's gold that this Board has held for many years, and it has been quite interesting. Indeed, I heard that the staff paper was somewhat difficult to comment on, and certainly difficult to write, but I think that it was clearly worth the effort.
>
> In our discussion I have noted among most--and I would even say all--of you, the common themes of caution on the subject of gold sales and the overriding need to maintain and, where possible, to strengthen the Fund's capital base and financial strength. In view of the very high majority needed to permit the Fund to sell gold, we clearly have some way to go before concluding this debate. Having carefully listened to your interventions, I believe most Directors could agree with the following basic principles that should be uppermost in our minds when formulating a policy as regards the Fund's gold.
>
> First, gold is the only undervalued asset held by the Fund, and it provides a fundamental strength to the Fund's balance sheet. Thus, any mobilization of the Fund's gold should be carefully thought out in order to avoid any weakening of the Fund's overall financial position.
>
> Second, the Fund's gold holdings provide the Fund with operational maneuverability both as regards its policies on the use of its resources and through adding credibility to the level of the Fund's precautionary balances. In these respects, the benefits of the Fund's gold holdings are passed on to the membership at large, to both creditors and debtors.
>
> Third, the Fund should continue to hold a relatively large amount of gold among its assets, not only for prudential reasons, but also to meet unforeseen contingencies--for example, in the event the General Resources Account would need to borrow from members. In this regard, Directors recalled the Fund's gold pledge to sell up to 3 million ounces to safeguard

resources used for the encashment of rights, which thereby protects creditors' interests in the ESAF.

Fourth, the Fund is the second largest official holder of gold in the world, with about 10 percent of total official gold stocks of member countries. We must take great care to avoid causing disruptions that would adversely impact on all gold holders and gold producers, as well as on the functioning of the gold markets. In this regard, the Fund has truly a systemic responsibility.

Fifth, a sale of gold by the Fund must not weaken its financial position, and if possible it should strengthen it. This means in practice that the capital profits of any sale of gold should be retained and that only the income deriving from the investment of such capital profits could be used for any current operations that might be agreed. In other words, any mobilization of the Fund's gold should result in a change in the composition of its assets rather than in an effective reduction.

These are, I think, the basic principles that all of us can support.

A number of Directors have argued that there is no compelling need for the Fund to consider selling gold at this time, and that it should not do so. These Directors stressed the importance of gold as the Fund's basic reserve. The Fund can sell gold, but it cannot buy gold, it was observed, and gold constituted a uniquely valuable, ultimate asset in exceptional circumstances. These Directors also expressed concern that small sales of Fund gold could be seen as a prelude to continued sales; once begun, it might prove difficult to stop what could be considered by members a costless way of financing worthwhile purposes. They also recalled that the Executive Board, in its 1980 discussion, concluded that gold sales should be considered only to achieve essential goals of the Fund, should command the broadest possible consensus among the membership, and should not risk causing disturbances in the gold markets. In coming to this position, many of these Directors stressed that they are strongly supportive of a continuation of ESAF operations, but that gold sales should not make up for declining flows of official development assistance. The Fund should first garner donor support for further bilateral assistance as and when such assistance would be needed to bridge the gap before the ESAF itself can begin to be self-sustaining around the year 2004. I am encouraged by such indications of support to maintain and subsidize ESAF operations after the existing ESAF resources have been fully committed.

Most other Directors are of the view that a sale of a modest portion of the Fund's gold would be justified, both on grounds of the cost of holding gold and in view of the need to secure the maintenance of an interim ESAF until the ESAF can become self-sustaining and, more generally, to assist in providing appropriate financial support to heavily-indebted low-income developing countries undertaking adjustment programs. These Directors also take into account that the Fund's gold holdings are relatively large and, in their view, exceed the Fund's needs of holding such an amount of gold for precautionary and prudential reasons. These Directors would therefore welcome further staff work to develop a more flexible approach that would involve a cautious and prudent gold sales program that could support the continuation of operations under the ESAF after all existing ESAF resources have been committed and would enhance the Fund's financial position.

As I have already indicated, I do not believe that any Director wishes the Fund to consider a gold sales program that would commit the Fund to sell a substantial part of its gold holdings. The matter calls for very careful judgment on how the Fund's gold can best service the Fund's purposes, both in the long run and in the short run. Several of you have emphasized the critical need for the broadest possible consensus in this area.

A sale of gold cannot substitute for an increase in the Fund's financial resources through an increase in quotas which, in my view, will be needed within the next two years. It is, therefore, appropriate that Directors have today tended to focus their attention on considering a possible sale of only a modest amount of gold to help finance ESAF operations during the transition period until it becomes self-financing.

Obviously, we need to consider this issue further within the context of the financing of ESAF operations while keeping in mind the message of caution to which all of you adhere. As indicated in my statement on the work program, the Executive Board will examine the options for continued financing and adapting of the ESAF in late August or early September. In that context, the staff could prepare a short paper outlining illustratively and in more detail than could be considered today the modalities of a program for a sale of a modest part of the Fund's gold stock. I stress that such a paper would be illustrative. At the same time, and equally important, the staff should examine how such a modest gold sale program could be compatible with the need to safeguard and strengthen the Fund's capital base, as well as to ensure that it would not become a prelude to continued sales, and with the need to obtain the broadest possible support for action.

I still believe that it will be a challenging task to reconcile the two objectives of a very careful, considered approach of the issue and the calendar for consideration of ESAF financing issues before the next Interim Committee meeting. But I think that this discussion has given us clear guidance and will certainly help the staff to calibrate its suggestions and its illustrative calculations in a way that could facilitate the Board's deliberations.

After adjourning at 1:00 p.m., the meeting reconvened at 2:30 p.m.

2. WORK PROGRAM

The Executive Directors considered the following statement by the Managing Director on the work program for the coming 12 months, with emphasis on the period up to the 1995 Annual Meetings:

The past several months have seen an unusually intense level of activity in the Fund, including extensive consideration in the Executive Board and in the Interim Committee of issues relating to Fund surveillance and financial resources. It is a tribute to the diligence and energy of this Board and, I would add, of the staff, that we were able to deal with this considerable body of work, at the same time as we coped with the crisis in Mexico and its aftermath and with a large volume of regular work.

As reflected in its communiqué of April 26, the Interim Committee has clearly requested that we give top priority to strengthening both surveillance and the Fund's financial resources. In this connection, we should review the role of the Fund in an economic environment characterized by increased globalization of markets for goods, services, and capital.

In planning our work for the period ahead, we will need to ensure that the strategic objectives of the institution are translated into the most effective allocation of our resources. This work program statement reflects a careful prioritization. Nevertheless, the period ahead will be demanding on all--Board members, management, and the staff.

In this statement, I will cover in some detail the work program for the period up to the Annual Meetings, in October 1995, and will provide broad indications of work to be undertaken in the period up to the spring 1996 ministerial meetings.

The Interim Committee has requested us to conduct a review of the role of the Fund. It is envisaged that this review, to

be prepared before the Annual Meetings, will examine how the role of the Fund has evolved in response to the economic environment characterized by increased globalization of markets for goods, services, and capital; and that it will consider how the Fund should prepare itself to better serve its members in terms both of strengthened surveillance and its provision of financial assistance. It was apparent from the discussions that the members of the Interim Committee expect this report to reflect the lessons to be drawn for the Fund's role from the recent extension of assistance to Mexico, and that they see a close connection between this report and the work on reviewing the adequacy of the Fund's financial resources. This review will also form a part of the response to the Interim Committee's request that the Executive Board embark on a further examination, in close collaboration with other institutions, of all the relevant issues relating to how the Fund can better assist members in coping with sudden market disturbance, consistent with its catalytic role. Accordingly, preparation of this report will be a matter of high priority in the weeks ahead. The Board will also review several aspects of the role of the Fund in the context of our work in implementing the strengthening of the Fund's surveillance that we have already decided, and in strengthening the Fund's financing.

The Interim Committee and the Executive Board discussions on the strengthening of surveillance placed considerable emphasis on the timely provision of statistical data to the Fund and on the publication of data to the public. A paper on the statistical policy of the Fund has been circulated and is scheduled for discussion on June 7; it is accompanied by a background paper on the evolution of the statistical activities of the Fund. The Interim Committee has focused on two aspects of the provision and publication of statistical data by member countries, in light of the Board's discussion on the strengthening Fund surveillance and the provision of statistical data by members (EBM/95/32, 4/3/95 and EBM/95/33, 4/4/95). First, the Committee stressed the importance of regular and timely provision by all members of economic data to the Fund. It also noted the intention of the Fund to make greater use of financial market data. With this in mind, a paper for an interim review by the Executive Board of the provision of data to the Fund will be prepared for consideration in mid-September. This will be followed by the full review of experience over 12 months, to be discussed by the Board in early April 1996. Moreover, the Interim Committee noted that timely publication by members of comprehensive data would enhance the transparency of their economic policies; it requested the Executive Board "to work toward the establishment of standards to guide members in the provision of data to the public, and to submit proposals for consideration by the Committee at its next meeting." The staff

will prepare a paper on this topic for consideration by the Board in late August, to allow a second round of discussions before the Interim Committee meets in October.

As to individual country surveillance, the Interim Committee has encouraged the Fund "to establish a closer and more continuous policy dialogue with member countries, to strengthen its analysis, and to be frank and candid in its recommendations concerning the possible risks attached to policies followed by members." The Committee also stressed that the Fund's surveillance should be strengthened in a symmetrical manner, and taking into account the lessons to be drawn, by member countries and by the Fund itself, from the recent crisis in Mexico. Noting the risks attached to over-reliance on easily reversible capital flows, the Interim Committee also encouraged us to pay more attention to the factors affecting capital flows, members' financing policies, and the soundness of their financial sectors in our surveillance activities. In addition, the Committee has concluded that the Fund should better focus its surveillance, by "rebalancing its efforts to give increased emphasis to the situation in those members where economic disturbances or policies could have broader implications for other countries, while maintaining the quality of its policy dialogue with all member countries." These matters were discussed at the retreat of Department Heads on May 17-18, and I will report to you soon on the conclusions that were drawn at that retreat.

In the period through the spring 1996 ministerial meetings, the continued efforts to strengthen surveillance and to maintain close collaboration with program and near-program countries, which now total 88 countries or nearly one half of the membership, are likely to result in a further increase in the heavy load of country-related work. The staff projects that the Board will be asked to conclude 169 Article IV consultations in the 12-month period up to the spring 1996 ministerial meetings. I would note, however, that over the past year, when we had projected some 170 consultations, we only completed 128. While some slippage is inevitable, in particular where Article IV consultations are linked to discussions on possible use of Fund resources, we must surely try to do better in the year ahead, as this is central to our surveillance function.

The tentative timing of Board consideration of those consultations and of annual arrangements under existing extended, ESAF, and stand-by arrangements and reviews under those arrangements, is shown in the tentative schedule of Executive Board meetings that has been circulated to Directors. Indications of the country work load in the period of the current work program are summarized in the annex to that

document. In addition, area departments tentatively project that 53 requests for new arrangements will be brought for the Board's consideration in the 12 months up to the spring 1996 ministerial meetings.

Following the application by Brunei Darussalam for membership in the Fund, a membership committee will be formed to undertake an examination of the application and make recommendations to the Board on a quota.

Three papers related to regional surveillance issues will be brought to the Board's agenda: a paper on the recent experience and issues relating to the CFA franc countries, in July; a paper on progress toward a monetary and economic union: developments and selected issues, in early 1996; and a review of the experience with Fund-supported programs in Central and Eastern Europe and some countries of the former Soviet Union, in early 1996. A paper on the "cross-border initiative" of a group of countries in eastern and southern Africa and the Indian Ocean region aimed at facilitating cross border trade, investment, and payments will be circulated for information, in July. In addition, the staff is preparing a paper for the Asia-Pacific Economic Cooperation Council (APEC) that will study long-term movements in the real exchange rates of the currencies of APEC members and the impact of movements in these exchange rates on trade and investment in the APEC region; this study could be circulated for the information of the Board in the fall of 1995.

The fall 1995 world economic outlook exercise, culminating in Board discussions on September 11 and 13, will provide an occasion for a further review of progress by the membership at large "in implementing policies to maintain global recovery and ensure stable financial market conditions" as requested in the April 1995 Interim Committee communiqué. As is customary, the staff papers will review recent events, including the turmoil in world financial markets earlier this year, update the staff's projections, and assess member countries' performance and policies. For the industrial countries, a key topic will be the need to avoid a resurgence of inflationary pressures as the expansion matures; with this in mind, the staff will examine the significance of various indicators of future inflation, the role of labor market behavior in fostering sustained growth with low rates of unemployment, and the policy requirements to enhance the anti-inflation credibility of macroeconomic policies. For the developing countries, the analysis will focus on the conditions for sustained growth, with particular emphasis on the respective roles of domestic policies and the external environment. The economic and, especially, the financial linkages between industrial and developing countries will be examined, including the extent to which activity in the

developing countries has become less dependent on demand from the industrial countries, thereby helping to sustain growth in the world economy. As regards the countries in transition, the staff papers will focus on the different policy challenges they face, as a result of the divergences in their economic performance.

In reviewing progress in implementing the Madrid Declaration, the Committee reaffirmed its intention to reinforce the Committee's role in the process of policy cooperation and coordination, having particularly in mind the medium-term strategy. In addition to the world economic outlook documentation, the staff will prepare the first of the six-monthly reviews of Fund policy advice, which the Board requested as a follow-up to the biennial surveillance review. It is envisaged that these reports will reflect the response of policies in member countries to Fund advice in recent Article IV consultations, as reflected in the Chairman's summings up. Brief background notes on individual countries will be prepared where necessary to ensure a suitably comprehensive sample of countries and up-to-date information, including, for some countries for which an Article IV consultation has not been held within the past six months. This would then provide the basis for a summary report to the Interim Committee on progress in implementing policies to maintain global recovery and ensure stable financial market conditions.

We will have the periodic discussions of world economic and market developments on June 5, July 19, and in September in conjunction with the discussion on the world economic outlook; after the 1995 Annual Meetings we will continue with these discussions at approximately six- to eight-week intervals. To supplement the customary material, more detailed coverage of recent developments in capital markets will be provided in these sessions. In addition, the monthly informal meetings on "country matters" will take place under the new procedures that we recently agreed.

As regards capital markets, banking supervision, and capital and financial account issues, the Interim Committee, in discussing the globalization and integration of markets for capital, stressed that this new environment required stricter policy discipline from all members to guard against sudden adverse market reactions. The international capital markets report will be discussed on May 24 together with background papers on recent developments in emerging markets and on regulatory and supervisory issues in the industrial countries; among background papers for that discussion will be one on taxes on financial transactions. In response to the Interim Committee's request that we pay more attention to developments

in financial markets, the staff will prepare a half-yearly interim update of the capital markets report, which could be available for Board discussion in November.

It is expected that the 1995-96 capital markets exercise will have as one of its main topics the issue of supervision of global capital markets.

A paper on capital account liberalization, which will address countries' experiences with liberalization of capital account restrictions and review the Fund's advice on capital account issues, will be available for Board discussion in July. This paper will also discuss the roles of the Fund and other international organizations with respect to capital account transactions.

A paper on banking supervision will be prepared for Board consideration in early 1996. It will discuss the macroeconomic implications of banking soundness, its importance for the effective conduct of monetary and other macroeconomic policies, the factors affecting bank soundness, and the role of prudential supervision and other measures to strengthen bank soundness.

As to strengthening the Fund's financial resources, while agreeing that the Fund's liquidity position is adequate at present, the Interim Committee noted that the Fund's liquidity is projected to decline sharply over the next two years. It requested the Executive Board "to continue to review the adequacy of the Fund's resources...," and it made specific requests with respect to quotas, borrowing, and the SDR.

The staff will issue its next six-monthly report on the Fund's liquidity and financing needs in August, for discussion before the Annual Meetings, and the subsequent report will be prepared prior to the spring 1996 meeting of the Interim Committee.

In connection with the Executive Board's review of the role of the Fund, the staff will carry forward its work on the Eleventh General Review of Quotas. A staff paper on the evolution of the share in Fund quotas of developing countries, which analyses issues relating to the long-run decline in the quota share of the developing countries, will be available for Board discussion in June. Papers on three other quota issues will be prepared in the course of the coming months for circulation before the Annual Meetings; these will deal with the issues relating to selective quota increases for countries whose quotas are substantially out of line with their relative economic size; the update of quota calculations based on 1992/93 data; and the use of new variables in the quota formulas. A

paper on issues relating to the calculation of quotas for the countries of the former Soviet Union will be prepared before the end of the year.

The Interim Committee "also saw a need to examine the issues related to borrowing by the Fund from members, and in particular, the role of the General Arrangements to Borrow." Papers on these two aspects will be available for Board discussion during the summer.

In addition to the Interim Committee's request that the Board keep under review the matter of an SDR allocation, it requested the Fund to initiate "a broad review, with the involvement of outside experts, of the role and functions of the SDR in light of changes in the world financial system." I propose that the Board meet informally on June 19 to discuss options for conducting this review, on the basis of a memorandum to be prepared by the staff that will outline a conference on the SDR tentatively scheduled for early next year. I would invite Executive Directors to come forward with suggestions on all aspects of this proposed conference, including subjects to be covered and outside experts who might be invited to participate. We should aim to complete arrangements for the conference by mid-summer, as some months will undoubtedly be required for the preparation of a worthwhile set of conference papers. After the conference is concluded, we will need to consider how to proceed with the development of specific proposals on the future role of the SDR that might be forwarded to the Interim Committee.

Also on the SDR, the Board will conduct, before the end of August, the quinquennial review of the SDR valuation and interest rate baskets.

The staff paper on gold in the Fund will be discussed on June 2. Thereafter, the staff will undertake further work, in light of the Board discussion.

As regards the Fund's financial structure, and financial and operational policies, a paper on the Fund's financial structure and the adjustable norm--legal aspects--is under preparation, for Board consideration in August. In the light of that discussion, the staff would prepare a paper containing a draft amendment to the Articles of Agreement and a draft report of the Executive Board to the Board of Governors, for consideration by the Board.

A paper on the midyear review of the Fund's income position for financial year (FY) 1996 will be issued for discussion by the Executive Board before December 15.

Papers on the implementation of the principles of burden sharing in FY 1997 and review of extended burden sharing, and on the Fund's income in FY 1996, the income target, and rate of charge for FY 1997, as well as on the decision on burden sharing for FY 1997, will be submitted to the Board for consideration in April 1996.

The study of the role of the Fund may, by its nature, involve a consideration of the policies and modalities of Fund financial assistance to members. We have, however, undertaken a thorough overhaul of Fund facilities over the past few years, and at this stage I do not see a need for fundamental changes. In the period ahead, we can expect to deal with the following subjects.

On the ESAF, three papers are planned. First, the Interim Committee noted the Board's discussion of the multilateral debt of heavily indebted poor countries and agreed that continued Fund support for the poorest developing countries on ESAF terms is desirable. The Committee requested the Executive Board to examine the options for continued financing and adapting of the ESAF. A paper on the continuation of ESAF operations could be discussed by the Executive Board in late August or early September. Second, the staff will prepare an update of operations under the ESAF, which will also include a review of the maximum access limit and the exceptional maximum limit, as decided by the Board when it agreed to enlarge and extend the ESAF in 1993, for consideration by the Board by June 30, 1995. Third, a paper to propose ESAF eligibility for members that have recently become IDA-eligible will be issued in June, for consideration on a lapse of time basis.

With respect to currency stabilization funds, a follow-up paper on issues relating to Fund financing for currency stabilization funds will be prepared for Board consideration before the informal Board recess. The paper will consider the appropriate circumstances and policy conditions for successful use of an exchange-rate-based strategy as well as issues related to "exiting" from pegs that are no longer appropriate.

As to other aspects, in the period after the Annual Meetings, a number of reviews of aspects of Fund financial assistance to members will be due. The annual review of access policy is to be completed before the end of October 1995. A review of operations under the CCFF is to be undertaken by January 1996; this is expected to be brief, in light of the limited CCFF operations since the last review. And the annual review of overdue financial obligations to the Fund and progress under the strengthened cooperative strategy, along with a review

of the system of special charges, will be brought to the Board for discussion in April 1996.

The staff is preparing a paper to discuss the possibility of developing procedures for orderly adjustment of international debt, for consideration by the Board in late June. Against the background of the various proposals that have been put forward, from time to time, for a comprehensive process of debt adjustment at the international level, analogous to that available under national laws, the paper will address a number of aspects, including the objectives of international debt adjustment, the scope of the debt to be covered, appropriate organizational arrangements, and the possible role of the Fund in that context.

Two other papers relating to debt and financing issues could be considered by the Board in August. First, a paper on financing for developing countries and their debt situation will review developments and issues arising from the restructuring of developing countries' commercial bank debt and debt to official bilateral creditors; it will also discuss developments and issues relating to new private and official financing flows to developing countries; and in light of recent Board discussions on multilateral debt, it will examine the prospective debt situations of selected countries on a case-by-case basis, including by examining the fiscal burden of external debt. Second, a companion background paper on private market financing for developing countries will analyze recent developments in the flow of private financing to developing countries, including the composition of these flows, their sources and estimations, and the cost of funds; it will also review developments in commercial bank debt reschedulings.

A staff paper for the information of Directors on the debt situation--recent developments in commercial bank and official bilateral debt restructurings--which will update information on developing countries' reschedulings of commercial bank and official bilateral debt, may be circulated as a companion paper for the spring world economic outlook discussion.

As regards trade and payments, a paper to continue the work on developing a framework for Fund collaboration with the World Trade Organization (WTO) will be prepared for consideration, initially by the Committee on Liaison with the WTO in June and subsequently by the Board. This paper will report on discussions with WTO staff on policies and procedures that will guide collaboration between the two institutions.

On growth and adjustment policies, in response to requests by Directors at the last review of experience with stand-by

arrangements and extended arrangements, the staff will circulate a paper, for Board discussion in August 1995, that will review the investment and growth response to adjustment policies, based on the experience of eight countries--Bangladesh, Chile, Ghana, India, Mexico, Morocco, Senegal, and Thailand. A companion paper will examine the links between growth and the composition of fiscal adjustment.

In addition to the overview papers, the staff will prepare a background paper that reviews the literature on the impact of fiscal variables on output growth.

With respect to fiscal policy studies, following the June conference in the Fund on income distribution and sustainable growth, a report on the conference will be prepared for the information of the Board. The staff will prepare a study on the macroeconomic aspects of pension schemes, in response to requests in a number of Board meetings in recent months; this could be discussed by Board after the informal recess. A staff paper on taxation and unemployment, and one on the fiscal implications of aging populations could be brought to the Board agenda in the last quarter of 1995.

The Annual Report of the Executive Directors to the Board of Governors will be considered, initially in the Committee of the Whole, starting on June 21; the planned date of release is end-August.

A number of other policy papers have been proposed or requested, which, although desirable, could be postponed or canceled, because they seem to be of lower priority.

In the area of trade and payments issues, they include two papers. One is a paper on trade reform issues in the Baltic countries, Russia, and other countries of the former Soviet Union, which could be ready for Board discussion after the Annual Meetings. This paper would review the experience of trade policies in these countries, examine whether the strategy of trade reform endorsed by the Board in 1993 is working, and suggest additional recommendations to promote realistic trade reform in the region. The other is a paper on regional and bilateral payments arrangements, which was listed in the previous work program; if desired, this paper could be circulated for information in August.

In the area of debt issues, the staff could prepare a paper on the use and design of limits on external debt in Fund arrangements, in response to the Board discussion on multilateral debt. This paper would review the use and design

of limits on external debt in Fund arrangements as well as the Fund's policy on external debt limits more generally.

A paper on the economic and public policy issues relating to payments systems, their reform, and their importance for monetary management and macroeconomic performance, could be prepared for discussion in early 1996. This paper would review country examples to highlight the key issues.

For the October meeting of the Development Committee, the Bank and Fund staffs will prepare documentation on the implications for the Bank and the Fund of the United Nations' Social Summit. In addition, as agreed at the conclusion of the recent Board discussion on aid flows and Fund-supported programs, the summing up of that discussion could be provided to the Development Committee for information. It is expected that the spring meeting of the Development Committee will be devoted to a review of the report of the Task Force on Development Banks; the staff will report to Board members on the progress of the work of the Task Force. In addition, the Chairman of the Development Committee has notified members of his intention to carry forward in the coming months the consideration of the future of the Development Committee, with a view to presenting proposals to the Development Committee.

As to administrative and budgetary matters, a series of papers relating to the Fund's administrative and capital budgets will be prepared, for consideration by the Committee on the Budget, and subsequently by the Board, if necessary. These include, for consideration in June, papers on the following topics: a description of the administrative budget process and the capital budget process, and country contributions to the costs of technical assistance experts and resident representatives. In addition, a paper on Phase IV will be brought to the Board in June. A paper on the separation benefits scheme will be considered at an early date. A paper on external assignments to provide technical assistance is being prepared, for initial consideration by the Committee on Administrative Policies (CAP) in the summer. The periodic report on actual expenses under the FY 1995 Administrative and Capital Budgets will be issued for information in July.

In response to requests by Board members during the April 1995 discussion on staff compensation, a paper on selected staff compensation issues will be prepared, for consideration by the CAP after the Annual Meetings.

Papers relating to education allowances, and repatriation, appointment, and separation benefits will be prepared for

consideration in the CAP. Quarterly reports on Phase III will be circulated as scheduled.

Following the 1995 Annual Meetings, Board consideration of administrative and budgetary issues will begin in the usual fashion with the regular discussion of the work program in November. This will be followed by the FY 1996 midyear review of the Administrative and Capital Budgets and the budgetary outlook in the medium term, with a companion paper on activities and resource utilization over the period 1995-96, which would be considered in December. The papers for the Administrative and Capital Budgets for FY 1997 will be prepared for Board consideration in April 1996. Other administrative papers will be prepared, including a review of the Medical Benefits Plan--including the issue of coverage for those separating from the Fund--and a review of the finances of the Group Life Insurance Scheme. Papers relating to the recruitment and retention experience in 1995 and staff compensation will be prepared for Board consideration in April 1996.

As regards other matters, it is expected that the Joint Ad Hoc Committee on Annual Meetings Arrangements will hold a series of meetings before issuing its final recommendations to the Fund and Bank Executive Boards in early August.

As indicated at the conclusion of the April 4 discussion on Mexico and the report on Fund surveillance in 1993-94, I see much merit in experimenting with different ways of evaluating the work of the Fund, including through arrangements that involve outside experts. We will be conducting other such evaluations in the period ahead, and it will be appropriate for us to assess their usefulness before revisiting the issue of how best to conduct such evaluations.

In the period ahead, the pace of work will continue to be intense, and the demands on the Board members and the staff will be very heavy. The work program outlined above reflects a serious attempt to concentrate on the key priorities, and to operate within a tight budget constraint. The twice-yearly work program exercise is, in my view, an important mechanism through which the guidance of the Interim Committee, and the views of Executive Directors, are related to the managing of the Fund's ongoing work. To enhance the usefulness of this exercise, it has been suggested that the relation between the twice-yearly work program exercise and the preparation of the Fund's budget should be discussed in the budget committee; a paper will be circulated soon to form the basis for such a discussion.

We will make every effort to ensure that the handling of the Board's crowded agenda is efficient and smooth.

Nevertheless, it will again be essential that Board members follow the agreed procedures and practices, to streamline our meetings.

Mr. Bergo made the following statement:

The Interim Committee has given the Board a clear mandate to work on strengthening the Fund's surveillance and reviewing the role and the financing of the Fund. This work program is consistent with the mandate set out by the spring Interim Committee meeting, and I broadly agree with the outline of the work program as described in the Managing Director's statement. Indeed, as the work program is tightly tailored to the Interim Committee guidelines, and as I very much welcome its focus on surveillance and the role of the Fund and its financing, it is not easy to find much chaff to separate from the essential kernel of Fund work.

With an agenda loaded with highly relevant topics of study, discussions, and action, there is always a certain risk that urgent matters that truly need to be given a high priority will be overshadowed. In the context of this work program, I would like to give high priority to the Eleventh General Review of Quotas. The fact that our efforts on this issue, to a large extent, can be based on work done in connection with the previous quota reviews should make it possible to expedite the process. The consideration of other related topics that have some bearing on this issue should not unduly delay the process.

In view of the large number of high-priority items already listed in the Managing Director's statement, I will resist the temptation to make a long wish-list of topics to add to, or bring forward on, the agenda. Instead, I will try to identify some items that I believe to be less time constrained and, thus, could be delayed somewhat if needed.

First, I would suggest discussing the papers on growth and adjustment policies after the Annual Meetings, rather than in August as proposed in the Managing Director's statement. While these are important topics and I can see certain merit in discussing them before the Meetings, experience shows that the pre-Meetings agendas tend to become heavily loaded with urgent items, many of direct relevance to the Interim Committee meetings. Hence, these important topics might be overshadowed by other, at that moment, more pressing matters.

Second, the discussion on some regional surveillance issues might be postponed somewhat. Although I am very much in favor of maintaining a strong focus on regional surveillance, I would suggest that we weigh the urgency of discussing those

matters against the Executive Board's work load at any particular time. If there are no special indications of tensions or major refocusing of policies in the respective regions with potential systemic ramifications, discussions could be scheduled at times when the work load is normally less heavy, such as in the beginning of a year or immediately following the ministerial meetings.

Thirdly, it is not strictly necessary to discuss procedures for orderly adjustment of international debt as early as late June. This is a relatively new topic, and it would be beneficial to have ample time to review and discuss the forthcoming paper in capitals before the Board discussion. Furthermore, there does not appear to be any compelling urgency to the matter. However, I agree that the topic is interesting and that it would be appropriate to discuss it at a convenient time. But, I think that we will do more justice to it if we discuss it at a somewhat later date.

The half-yearly review of capital markets is essential, and there is clearly a need to consider the experience with capital liberalization. As regards banking supervision, the Fund should concentrate on the macroeconomic aspects of the general soundness of the banking system and leave the more technical aspects to other institutions that are working in this area.

I note that the work on currency stabilization funds will continue from a somewhat different angle than before. I welcome the focus on the appropriate circumstances and policy conditions for a successful exchange-rate-based strategy, including exit options from pegged systems.

The continued emphasis on financing for developing countries and their debt situation is fully warranted, and I especially welcome the announced case-by-case analysis of selected countries. However, the paper, listed under "other possible papers," on the design of limits on external debt in Fund arrangements should not have less priority, as it has direct and immediate operational relevance for Fund policies.

I very much appreciate the topic for this autumn's Development Committee meeting and the work undertaken by the Fund in this connection. I also hope, even if it is not explicitly mentioned in the work program, that the necessary resources have been devoted to provide input to the Halifax meeting of the Group of Seven industrial countries.

I am very much encouraged by the announced preparation of a paper on the scope for strengthening the relation between the

work program and the budgetary process. However, contrary to what is said in the Managing Director's statement, I would hope that as a consequence of the discussion of this paper, the Board's consideration of administrative and budgetary issues will not begin "in the usual fashion" in November, but rather according to some improved procedures coming out from the discussion of the paper mentioned above.

Mr. Clark made the following statement:

The Managing Director's statement on the work program provides a good framework for the daunting task that is before the Executive Board.

I agree with the suggestion of several Executive Directors that a practical way of setting relative priorities among the items in the Managing Director's statement might be to agree on specific items that we could commit ourselves to achieving before the Annual Meetings.

I submit the following list as an example of one that might attract a consensus among the Executive Board members.

With regard to the role of the Fund, the goal would be to have completed discussion on a staff paper and produce a report to capitals that includes a brief historical perspective on the role of the Fund; reflections on the Mexico experience; the Fund's role in an environment of globalized capital movements; the Fund's role in assisting members to cope with sudden market disturbances; implications for future Fund operations; and recommendations on resource need, such as a quota increase or borrowing.

To do this we would have to reach a broad consensus on such issues as the catalytic role versus lender of last resort; the function of the Fund during a period of reduced aid flows--that is, the relative priorities of ESAF-type lending versus traditional balance of payments lending; the Fund's role in international exchange rate arrangements; and consistent self-definition by the Fund and other international organizations, particularly the World Bank and the World Trade Organization.

The goal under the heading "surveillance" would be to deal definitively with one or two specific items, while recognizing that a broad ongoing development of the work on strengthening surveillance is required. Two suggested specifics are the papers on statistical data and the follow-up to the Madrid declaration, including the first six-monthly reviews, which would lead to a summary report to the Interim Committee.

On quotas, although it is unrealistic to expect that significant progress can be made on the substance of the size of required increase in resources and the Eleventh General Review of Quotas before the Annual Meetings, we should commit ourselves to processing a number of specified technical issues on quotas--for example, selective increases, variables in the formulas--and agreeing on an approach to addressing the issue of decline of the share in Fund quotas of developing countries.

With respect to borrowing by the Fund, the goal could be to provide a report to the Interim Committee on the scope for expanding borrowing by the Fund from official sources, both increasing the amounts from existing lenders and increasing the number of lenders.

The goal with respect to the role of the SDR could be to finalize the detailed arrangements--including participation of outside experts--for meeting the Interim Committee's request, such as the conference proposed in the Managing Director's statement. The staff should have substantial work done by the time of the Annual Meetings.

On the ESAF, the goal could be to make decisions on the issues raised in the three papers outlined in the Managing Director's statement so that by the time of the Annual Meetings the future of the ESAF is clearly determined.

With respect to the evaluation function, the goal could be to come to definitive decisions on how the evaluation function would be performed in the Fund over the subsequent five years. Options include creating a formal evaluation unit or, alternatively, agreeing to a procedure for determining how to initiate a Whittome-style review on the relatively rare occasion that the Executive Board deems this to be warranted.

Other Executive Board members will undoubtedly have suggestions to modify or add to such a list. The key point is that it should comprise a relatively limited subset of the items in the Managing Director's statement. Agreement on such a list would be consistent with the Managing Director's statement, as the list to be targeted for completion by the Annual Meetings would be drawn from it. Such a list would obviously not preclude intensive consideration of other items the Managing Director has mentioned. There would, in fact, be an expectation that progress would be made on most of the items in the Managing Director's statement. It would, however, provide a firm commitment to a limited number of ambitious, but achievable goals.

This approach would also assist in the continuing efforts to spread more evenly the Board agendas so that issues that might otherwise be dealt with in September could be moved up to the lighter period in July. Indeed, one of the meetings in July could be devoted to reviewing the progress on the list, confirming our priorities, and determining which items in the Managing Director's statement would be scheduled after the Annual Meetings.

Mr. Waterman made the following statement:

In my view, there is a need to agree a work program that reflects more explicitly the Board's priorities and to use this as a basis for scheduling and sequencing the various items that need to be considered by the Board. Indeed, setting priorities explicitly in the work program was requested by many Directors during our last discussion on this topic (EBM/94/97, 11/7/94). It would be useful to agree on a framework for constructing the Board's work program that would be applicable for the period immediately ahead and could guide staff in developing future work programs. The issues covered in the work program should, of course, be a matter for discussion in the Board, but agreeing a framework would be a helpful first step.

A number of aspects should be considered in constructing the work program. Desirable elements of a framework would include setting up some clear objectives and prioritizing on the key issues that need to be advanced or resolved in the period immediately ahead. Making more explicit those issues that are discretionary from the Board's point of view would provide a basis for sifting out items of low priority and perhaps less relevance to the work of the Fund. This latter group of issues might be deferred for Board consideration at a later date, might proceed at the staff level without necessarily being brought to the Board for discussion, or might not proceed at all.

They would also include consideration of issues of sequencing and scheduling. To some extent this will occur automatically once we establish priorities. But other considerations need to be borne in mind when scheduling the Board's work. Some items need to undertaken by the Board before other items can be considered. For example, I see a need to come to some firmer conclusions on the role of the Fund before discussing in earnest whether there is a need to strengthen the Fund's financial base. The timetable for country item discussions is helpful. A more detailed indicative timetable outlining when the Board is likely to consider the various policy issues--notwithstanding the uncertainties--would also be helpful. Indeed, scheduling the policy issues beforehand is probably the optimal approach, given that these are central to

the Board's agenda. Planning the Board's work program in this way should help avoid or reduce the intensity of the Board's peak loads, particularly just prior to the Annual and spring Meetings. It would also allow a more careful consideration of policy issues and how they might be addressed.

In the context of the proposed work program, the issues put forward by management could be categorized according to those that need to be resolved between now and the Annual Meetings; those that are important but do not need to be finalized until after the Annual Meetings; and items of work under way at the staff level that may be important but do not, on their own, warrant consideration in a Board meeting. In addition, there is a group of bread-and-butter issues that we need to accept as part of our regular work program, including consideration of Article IV consultation reports, country matters, the world economic outlook and world economic and market developments, and the Annual Report.

In the period up to the Annual Meetings a central focus of our work should be to come to some clear conclusions on the future role of the Fund, taking account of the changing international monetary environment. This could be reflected in a more detailed consideration of the process by which we will achieve this--for example, a staff paper, an informal seminar, or possible input from experts outside the Fund--and the specific timing of these events.

Under the heading of the role of the Fund, I see a need for a discussion about the aims of Fund-supported programs including, for example, the relative emphasis given to achieving short-term stability and economic growth. I also believe there is a need to further consider the Fund's role in crisis situations--recognizing that improved surveillance might reduce their number and scale but is unlikely to eliminate them. A number of issues could be considered in this context, including whether a catalytic role is of central relevance in crisis situations; whether the Fund should have a larger financing role in crisis situations; and alternative roles that the Fund could play when a crisis develops.

Fund surveillance is another area where specific initiatives need to be agreed before the Annual Meetings. We have agreed in principle that the Fund's surveillance is of central importance and needs to be more effective, but further debate on specific mechanisms for facilitating this is required. In particular, some further reflection on the Whittome Report is warranted, and a formal response by management to this report would be an appropriate setting for meeting this aim. We need to make progress in areas such as the provision of statistical

data, more selective surveillance, monitoring the financial markets, and reforms to the Board's surveillance procedures.

Commencing a discussion on the Fund's balance sheet and the demands on the nonfinancial staff resources before the Annual Meetings would seem appropriate. A number of other issues on the draft work program do not need to be finalized until after the Annual Meetings including, for example, the review of access policy and the review of the system of special charges.

There are matters on which the staff will be doing important work but that might not require a special Board meeting. For example, I would include here, among others, some if not all of the proposed staff papers on regional surveillance and banking and capital markets supervision.

The suggestions put forward by Mr. Clark for setting clear goals and his listing of possible key areas of work, and Mr. Bergo's identification of items that should be deferred, illustrate the kind of detailed input required from the Board in agreeing on the work program. I do not think that it is possible for the Board to do a good job on this front in one discussion. I therefore support Ms. Lissakers's suggestion prior to this meeting that management circulate a supplementary document following Friday's discussion, outlining more concisely the issues that the Board identifies as high priority, and those that should be dropped or deferred; and developing in more detail the process and specific timing of a small number of the highest priority issues. It may well be desirable for the Board to meet again next week to review this document and finalize the work program. Agreeing to a manageable work program is central to our effective operation, and it is worth spending some time on.

Mr. Al-Jasser made the following statement:

It is heartening to note that many of the suggestions that were made during our last discussion on the work program to streamline work procedures and enhance efficiency are taking hold. This has helped us in coping with an extremely heavy work load over the past six months. It is clear from the Managing Director's statement that the work load will be just as heavy. Thus, in addition to continuing the efforts to increase efficiency, we have to be even more selective in setting priorities. In this regard, the provision of a rough estimate of the cost of each of the proposed papers would allow for a more informed cost-benefit analysis and facilitate prioritization. It is hoped that the paper that links the work program and the Fund's budget, which is being prepared for the

budget committee, would address this issue. More broadly, as the Fund has a full plate, it should focus more thoroughly on issues related to its primary responsibilities and avoid taking on additional ones that are of secondary importance, especially if they fall within the mandate of other institutions.

As to the specifics of the work program, it is clear that the explicit requests of the Interim Committee will need to be addressed in a timely fashion; thus, I will not concentrate on these topics. Instead, I will focus my comments on other topics where I believe work should have a particularly high or low priority.

I agree with the Managing Director that completion of the review of the role of the Fund is a priority. As envisaged, the review will have a bearing on a number of topics in this work program, especially those relating to the Fund's financial resources. For example, it is important that the work on quotas, which includes five papers, should not go well ahead of our work on the role of the Fund. Sequencing is of the essence here.

In the same vein, the proposed paper on the legal aspects of the Fund's financial structure appears premature, as agreement has not yet been reached on a structure. It is my understanding that the legal paper will cast the agreed structure into a legal framework. Thus, we should not go ahead of the game as was done in the SDR case, when legal papers and a proposed amendment to the Articles were prepared before an agreement on the issue was reached. While on the issue of the SDR, I welcome the proposed review of the role and function of the SDR and look forward to our exchange of views on this topic during the informal meeting on June 19.

On individual country surveillance, the efforts by the Fund to establish a continuous policy dialogue with members and to be frank and candid in its recommendations should enhance the Fund's key surveillance role. It is important, however, for the Fund to refrain from giving advice in areas where it has no jurisdiction or expertise, such as making political judgments. Moreover, in view of the increasingly heavy load of country work, it is critical for the Fund to be selective when applying its strengthened surveillance. In this connection, I look forward to the Managing Director's report on his discussions with Department Heads on this issue. While on the subject of country-related activities, I welcome the application by Brunei Darussalam for membership in the Fund. The sought-after membership of this institution is a tribute to the Fund's invaluable contributions to all concerned.

With respect to the world economic outlook exercise, the emphasis on the growing significance of developing countries in helping to sustain growth in the world economy is important. With the growing integration of financial markets, it should be illuminating to elaborate on the impact of the international environment on these countries. In this regard, it would be useful for the world economic outlook report to provide insights on how best to design policies in the developing countries that will maximize the benefits and minimize the risks of that integration.

I continue to find the World Economic and Market Development sessions very relevant. The planned provision of more detailed coverage of recent developments in capital markets is a welcome enhancement of these sessions. Moreover, the new format of the informal meetings on "country matters" appears to be working as intended. By providing comprehensive updates on various countries, including the provision of tables and charts, these meetings are keeping the Board informed on developments in the membership. This being the case, the benefits of preparing brief background papers on individual countries for the six-monthly review of Fund policy advice are unclear. In these tight budgetary times, it is important not to duplicate our work or go for costly endeavors that will likely yield small returns.

The increased attention to developments in financial markets, as evidenced by the proposed half-yearly updating of capital market report, is welcome. Moreover, the emphasis on supervision in the 1995-96 capital markets exercise is timely. In this regard, it may be useful to address the role of the Fund in this area in the sense of exploring what it can contribute to the enhancement of such supervision. I also look forward to the discussion on capital account convertibility and the role that the Fund can play.

The proposed paper on banking supervision is also relevant and timely. The increased integration of capital markets and the recent turbulence in financial markets over the past year have highlighted the vulnerability of the banking system in a number of countries. Thus, emphasis on the role that prudential supervision and other measures could play in strengthening bank soundness is appropriate. Again, I would be interested in a clarification of the role of the Fund and its contributions in this area.

I look forward to the continued work on developing a framework for Fund collaboration with the World Trade Organization. Early progress on this front is important if frictions and overlapping of mandates is to be avoided. I also welcome the proposed work on issues related to "exiting" pegs

that are no longer appropriate. However, a discussion of currency stabilization funds is not necessary at this time.

While growth is undeniably one of the most important economic policy objectives of countries, it is not clear that the Fund enjoys a comparative advantage in this area. Thus, when working on growth issues, a collaborative approach with the World Bank will be useful. This is particularly relevant for the two papers on fiscal composition and growth. Incidentally, these two papers appear to overlap greatly. It also appears that the conference on income distribution and sustainable growth falls largely in the domain of the World Bank. Staff elaboration on these issues would be helpful.

On administrative and budgetary matters, I am in broad agreement with the proposals in the Managing Director's statement, and I look forward to the discussion of the medium-term budgetary outlook. The papers on Phase IV and on country contributions to the costs of technical assistance experts and resident representatives are timely.

On other matters, like others, I look forward to the recommendations of the Joint Ad Hoc Committee on Arrangements for the Annual Meetings. I also welcome the increased emphasis on evaluating the work of the Fund. Here, however, I believe that a more formal approach, including the establishment of an evaluation unit, would still be constructive.

In view of the magnitude of the work load, I do not see a pressing need at this time to produce any of the papers included under "other possible papers," as I agree with the Managing Director that they seem to be of lower priority.

Mr. Kiekens made the following statement:

I would like to join the Chairman in paying tribute to the diligence and energy of the staff in dealing with the considerable work load of the past several months. There is no doubt that the Fund continues to count on its highly professional staff and that it is only thanks to the efficient collaboration between this Board, management, and the staff that its mandate will be successfully achieved.

The period ahead will be one of equally heavy burdens if the Fund is to realize its strategy objectives. Therefore, the Board's work program must reflect careful prioritization as well as enable the most effective allocation of the Fund's human resources. I note with satisfaction that the work program will now be more closely linked to the preparation of the Fund's budget.

Before commenting in more detail on the various items of the proposed work program, I would like to draw attention to the fact that, for the month of September, 30 so-called country matters have been scheduled, 20 of which are Article IV consultations. This is almost twice the number of Article IV consultations scheduled in an average month. It might turn out to be too heavy a work load for a period in which the Board must simultaneously tackle a number of important policy and administrative matters in preparation for the Annual Meeting. I know that, out of the five months between the spring Interim Committee meeting and the Annual Meetings, only three can be considered full working months for the Board, as May is traditionally, and I would like to suggest wrongly, a quiet month; and August is the month of the Board's recess. I therefore wonder whether it might be wise to schedule Interim Committee meetings six complete months apart, both in order to place them in better balance with one another and to improve the balance of the work load between them.

I would like to now focus on the priorities I see in the Board's work program, paying particular attention to the need to prepare for the upcoming Interim Committee meeting. For me, the two central issues are the strengthening of surveillance and the role of the Fund.

Despite the considerable progress we have made recently toward strengthening the Fund's surveillance, our task will remain unfinished until we consolidate the recent achievements. To be specific, we should aim at achieving a quick agreement on the provision of data to the Fund and to the public. I would argue that more formality is required in the rules that will define members' obligations to provide data to the Fund. Such rules should specify the reporting requirements but should also be broad enough to cover diverging situations and provide a solid basis to require additional information if circumstances warrant. At the same time, we should establish a code of conduct to guide members in providing data to the public. Agreements on both these issues should be ready for reporting to the upcoming Interim Committee meeting.

As to bilateral surveillance, I was disappointed by the rather low score achieved: only 128 Article IV consultations were completed out of the 170 scheduled for last year, which amounts to only 75 percent. The score is even lower if we exclude the consultations with industrial countries. In this area, which is, in the Managing Director's statement, "central to our surveillance function," much improvement is needed. Looking at the report on delayed completions of Article IV consultations, I found it particularly worrisome that countries like Egypt, Bulgaria, Romania, Papua New Guinea, and Kenya have

gone or will have gone 18 months without any full Article IV consultation, and that Indonesia and Mexico are also late.

With regard to regional surveillance, the program proposed seems sufficiently balanced, with its focus on Africa, the European Union, and developments in Central and Eastern Europe. The addition of a paper on the real exchange rates of the currencies of APEC members leads us to a better, more complete understanding of the reasons behind the success stories in that part of the world.

In the area of multilateral surveillance, the combined exercises of the world economic outlook and the scorecard of the Madrid Declaration will as usual be one of the centerpieces of our agenda. I am certain that, once again, the topics on which the staff will provide insights will be interesting. But I note that exchange rate developments will not be among them, although they have profoundly affected growth prospects in some parts of the world. We are especially looking forward to the first six-monthly review of Fund policy advice, which will examine how member countries responded to the advice given in the course of recent Article IV consultations. Such background information should represent the bone structure of our report to the Interim Committee on the implementation of the Madrid Declaration. These six-monthly events, the World Economic and Market Development sessions, and the new format for the Country Matters meetings, provide an appropriate mix of formats for the Board to consider developments affecting particular countries or those that could affect the economics of member countries, and so give the surveillance process greater continuity.

The institution cannot, however, satisfy itself by only strengthening its surveillance. Its role is much broader. For this reason I am looking forward to the review of the role of the Fund. As there is a close connection between this review and the review on the adequacy of the Fund's financial resources, a conclusion of the latter issue cannot precede the results of our review of the Fund's role.

Besides the Fund's traditional role of temporary financing of current account deficits and the building up of external reserves of member countries, there remain questions on how the Fund can better assist those members that are exposed to sudden disturbances in capital movements. Papers on capital account liberalization and orderly adjustment of international debt should provide some of the answers we are looking for. There is also a need to look at how the Fund can continue to assist its poorest developing members.

The ESAF has fulfilled a useful role and should continue to exist beyond its scheduled termination. The Board therefore should examine the options for continued financing of the ESAF. The papers proposed by the staff in this respect seem appropriate in addressing this issue.

On financial resources, we share the proposal of the Managing Director to continue a four-pronged approach by reviewing quotas, borrowing by the Fund, the role of the Fund's gold, and, with the involvement of outside experts, the future of the SDR. I favor accelerating the Board's work on the Eleventh General Review of Quotas so as to arrive at a conclusion in due course. I also particularly look forward to a broad study of the role of the SDR. I will formulate suggestions to make this study concrete and operational on June 19. The Board also should continue its work on the Fund's financial structure and the adjustable norm.

I welcome the fact that the staff of both the Fund and the Bank will prepare a paper on the implications for the Bretton Woods institutions of the United Nations' Social Summit in preparation for the October meeting of the Development Committee. I would like to remind the Board that, during their latest lunch, the Interim Committee members agreed to invite to their next meeting the Director-General of the International Labor Institute and to discuss the paper now being proposed for submission to the Development Committee. As this paper is to be discussed at the Interim and Development Committees, the Board should discuss it beforehand.

I have not touched upon all the items discussed in the Managing Director's comprehensive statement. It is not that I do not find all the other papers or issues to be without interest, but that I would instead prefer to concentrate on those issues that I consider to be priorities for the institution in the next few months. I therefore agree that the paper on banking supervision, which does not belong to the core of Fund activities, should be scheduled for next year. I would also postpone the papers on fiscal policy studies and growth to a date after the Interim Committee meeting. They could be tackled in October or November.

Mr. Geethakrishnan made the following statement:

The Managing Director's statement clearly indicates that we have a very heavy schedule of work ahead of us. We can do very little about it, as major part of the work program is in a way predetermined by the ongoing cycle of Article IV consultations, program reviews, and periodic review of functions of the Fund.

Thus, when Executive Directors express their happiness or unhappiness with the work program, that happiness or unhappiness largely pertains to the major issues highlighted in the Managing Director's statement. While the Managing Director has sought to situate the detailed work program within the framework of the discussions on the major issues, several Directors apparently feel that discussions on these major issues should be situated in the context of a fresh thinking on the role and functions of the Fund. Clearly there is a need for periodic discussions on what the role and functions of the Fund should be. Such discussions could take place once every five or ten years, or whenever there is a major change in the world economic scenario. There were major discussions on these issues in September 1994, in the context of our Madrid meetings. Perhaps there is a case for following up on those discussions. I do not, however, see the need for a fresh discussion on the role and functions of the Fund as a prerequisite for determining the detailed work program in the forthcoming cycle. In my view, the present functions capture adequately the objectives as set out in the Articles of Agreement as well as those that have emerged from the actual conduct of the Fund's work over the past few decades. It is a different matter whether these functions are being discharged well and in the most cost-effective manner. These aspects could be discussed when each of these issues comes up for review by the Board as part of the work program. It will not be necessary to restructure the work program for this purpose.

One must, however, concede the need for a sharper focus on the key issues highlighted in the Managing Director's statement. It will be desirable for us to have a preliminary discussion on whether it is possible for us to adopt a time frame for the completion of discussions on these issues. It must, at the same time, be borne in mind that often on such key issues it is the difficulty in building a consensus among the membership, rather than a lack of clarity in the proposal itself, that delays decision-making. To cite an example, the various proposals on the SDR that we considered in 1994 were definitely not lacking in clarity. Even so, we did not find it possible to reach a consensus on any of the proposals.

Perhaps a way out would be to complete one round of discussions on each of the key issues in the coming ten weeks, thus giving ourselves the opportunity to revisit, in the subsequent five weeks, those issues that elude a consensus in the first round. This way, we will be maximizing the number of items on which we could reach final decisions before the Annual Meetings.

Before concluding, I would like to express my satisfaction at the fact that the work program includes an item on growth and

adjustment policies. The fact that the item is coming up for discussion is itself a major achievement. I have two suggestions to make in this regard. First, it would be useful if a summary of the proceedings of the two-day seminar on this very same topic, held yesterday and today, could be circulated as background material when we discuss the growth and adjustment policy paper. Second, I would like the staff papers to focus on employment and social safety net aspects, in addition to the aspects already listed. On employment, I am aware that the availability of data could be a limitation. But an examination of this issue becomes important in the context of the criticism generally leveled that the reform process, with its emphasis on improving productivity and efficiency, leads, at least in the initial phase, to retrenchment rather than to the fresh creation of employment. As regards social safety nets, it would be useful if, when a major reform process is embarked upon, the staff could examine the details of the social safety nets available outside of the member's budgetary framework. I emphasize this aspect because we often tend to focus only on the budgetary provisions for social safety net programs, and thereby run the risk of overlooking major social safety nets available outside the budgetary framework, which are dismantled in the reform process.

Ms. Lissakers made the following statement:

I have few disagreements with the substance of the work program presented by the Managing Director. However, as I indicated in the note circulated earlier this week, I think we should take it a step further by clearly identifying issues that require early decisions and those that can be decided later.

I see four broad priority areas, with a specific subset of issues on which we should try to come to closure before the Annual Meetings.

The role of the Fund in the international monetary system is set forth in Article I of the Articles of Agreement. Over the years, the Fund has adapted itself to the changing economic environment in which it operates in order to ensure that it continues to be able to fulfill these basic purposes. The events in Mexico highlighted the need for further adaptation to ensure that the Fund can effectively and efficiently meet members' needs in the context of a global financial market with fast-moving capital. Therefore, our first priority must be to position the institution to better deal with the financial markets of the twenty-first century and the potential crises that may emerge. Thus, we need decisions on the following: enhancing the capacity of the Fund to respond quickly and effectively to extraordinary balance of payments crises that

have broad consequences for the world economy and financial system--this includes consideration of procedures and mechanisms to enable the Fund to bring its resources to bear more quickly and in sufficient amounts to support strong programs in crisis cases as well as the possible adoption of some sort of workout procedures to provide an orderly workout of debt problems; modifying the ESAF to enable the Fund to play a more sustained role in the poorest developing countries, including a decision on permanent status, resources, types of financing, and resolution of the multilateral debt overhang problem of the poorest countries; responding to the Interim Committee's request that the Executive Board consider possible approaches to the problems of countries emerging from post-conflict situations--this could include arrangements to improve our coordination with the World Bank and the United Nations; and undertaking our study on the role of the SDR by providing a report to the Interim Committee on how we intend to proceed, as suggested by the Managing Director in the work program.

An assessment of Fund's resources is a logical follow-on to the assessment of the role of the Fund. Thus, we should make some decisions on borrowing, including possible strengthening of the general agreement on borrowing; the use of the Fund's gold to help meet new demands on the institution; and proceeding with the next quota review, including the various studies on key issues as proposed by the Managing Director.

The Interim Committee has given us broad guidance to improve surveillance and made a number of suggestions for specific action. We need to make the decisions necessary to put this guidance into effect. We should implement the Interim Committee's recommendations regarding data provision and the publication of data. I question whether the Managing Director's proposed schedule will allow us to reach conclusions before the Annual Meetings. We should also develop a Fund standard for country publication of key economic and financial data, and decide how the Fund can most effectively encourage members to meet the standard. The proposed schedule of a paper by late summer and two Board discussions prior to the Annual Meetings seems adequate to allow decisions on recommendations for the Interim Committee. Furthermore, we should update the Fund's treatment of the capital account, including consideration of the need to amend the Articles of Agreement.

As regards administrative reforms, although not issues demanding action by the Interim Committee, the Board should move forward with efforts to improve the internal operations of the Fund by concluding the debate on an evaluation unit and presenting a plan of action to the Interim Committee; figuring out how to integrate the budget process with the work program--I

agree with Mr. Bergo that this should begin with the next budget cycle; and addressing personnel management issues. Some time after the Annual Meetings, I would like to have a report to the Board from the Administration Department on how it is addressing the issue of low staff turnover and performance reviews. I would also like to have a report on how the recommendations of the Working Group on the Status of Women in the Fund are being implemented. Both of these issues merit Board attention.

I agree with Mr. Bergo on the need to proceed with work on exchange rate policies and particularly on exit strategies, but we could delay Board discussion of these issues until after the Annual Meetings.

While I strongly endorse the concept of regional surveillance and the regional papers under preparation, I think consideration of the paper on CFA franc countries should be moved from July to sometime after the Annual Meetings to make room on the schedule for more pressing items.

I feel strongly that the next capital markets exercise should not focus on the supervision of global capital markets. This is an issue best left to institutions and organizations with the relevant competence and responsibility. There are other capital markets issues that have a more direct bearing on the Fund's work.

Extending her remarks, Ms. Lissakers said that she wished to clarify that both the U.S. Secretary of the Treasury and the Chairman of the Federal Reserve had expressed considerable interest in a cautious examination of work out procedures to address the debt problem, and that they recognized that the issue was very complicated legally and very sensitive in many ways. In that light, her authorities would like to have the matter brought to the agenda for serious examination. As to the quota review, the fact that she had included the quota review on her list priorities did not mean that her chair had in any way changed its views on the pace of the review; it saw no need to accelerate the process, which should proceed on a normal basis.

The Chairman observed that "a cautious examination of work out procedures" described exactly the spirit in which the staff proposed to undertake work on that issue.

Mr. Shaalan remarked that he was surprised by Ms. Lissakers's statement regarding the capital markets exercise. He understood that the Board was to address systemic issues when looking at capital markets issues or the capital market exercise.

Mr. Al-Jasser observed that Article IV of the Articles of Agreement recognized that the essential purpose of the international monetary system was to provide a framework that facilitated the exchange of goods, services,

and capital among countries, and entrusted the Fund with surveillance over the international monetary system. He was, therefore, surprised that Ms. Lissakers felt "strongly" that the forthcoming capital markets exercise should not focus on the supervision of global capital markets. He himself looked forward to seeing how the Fund could exercise that role of the institution more effectively.

Ms. Lissakers said that, based on previous discussions and suggestions in that area, she understood that the proposed exercise would focus on the supervision of financial institutions and instruments--an area where the Fund had neither competence nor responsibility. If the focus was the management of the international monetary system and capital flows, that was an area where the Fund should, in her view, do more rather than less.

The Chairman remarked that he could reassure Ms. Lissakers that the focus on supervision would be in keeping with the spirit of the Fund's broad responsibilities under Article IV.

Ms. Lissakers commented that, with regard to banking supervision, she favored a close examination of how to improve Article IV surveillance with regard to the financial services sector rather than a review of the specific features of a certain banking supervisory system.

Mr. Mirakhor remarked that the Chairman's clarification had been helpful. He presumed that the set of papers that had recently been discussed in the Board was along the lines Ms. Lissakers had in mind.

Mr. Havrylyshyn said that the Chairman's clarification fits very well the nuances that he found appropriate, including Mr. Bergo's comments on that point.

Mr. Al-Jasser remarked that there was a role for the Fund the area of banking supervision in view of its universal membership and the fact that no other institution with a universal membership looked at those issues. Moreover, members often requested Fund assistance in that area, for example, on prudential supervision of the banking system. Although he did not expect the Fund to have a pervasive role to play with respect to banking supervision, there was nonetheless, a role to be played by the Fund in that area.

The Chairman observed that he did not have in mind that the Fund would assume the role of the Bank for International Settlements, for example, for those banks not under the aegis of that bank. Rather, the Fund's role was to be particularly attentive of the particular difficulties that those small and mid-sized countries could have in adapting their banking system to the constraints of the new globalized marketplace, and help them, particularly, through technical assistance or other means, in those endeavors.

Mr. Mesaki made the following statement:

I broadly agree with the proposed work program. In particular, I commend the Managing Director for the careful prioritization. I would therefore limit my statement to one general comment, and a few specific comments.

My general impression of the proposed work program is that many items are concentrated in August and fewer items are scheduled in July, when there are relatively few country items. I would suggest that the Managing Director move some of the items currently scheduled in August to July, in order to even the work load.

My first specific comment is related to this general comment. Regarding the provision of statistical data, I am of the view that high priority should be given to the provision of data to the Fund and the establishment of standards to guide members in the provision of data to the public. Thus, I would suggest that the Managing Director explore the possibility of discussing these items earlier, preferably in late July.

Regarding regional surveillance, I cannot find any convincing reason why the first three items are treated different than the last two items. To reduce the heavy work load, I would suggest that the three papers related to CFA franc countries, the Ecomomic and Monetary Union, and Central and Eastern Europe, some Baltic countries, Russia, and the other countries of the former Soviet Union not be brought to the Board agenda. I believe it would suffice to circulate the staff papers for information.

Regarding capital markets, I appreciate the clarification about surveillance and supervision. However, there are other capital market issues that have a more direct bearing on the Fund's work.

I believe that more importance should be attached to the relationship between the evolution of financial markets and the developments in the exchange markets. As Directors will recall, concern was expressed at the Interim Committee about recent developments in exchange markets, suggesting that serious consideration should be given to how to ensure stability of the exchange markets in an environment of massive globalization of financial markets and rapid financial innovation. Today, I would emphasize that increased attention should be paid to issues emerging importantly from the current circumstances, including the impact of new financial instruments on financial market volatility, and the impact of globalization on the relation between exchange rate movements and economic

fundamentals, in both the short and medium term. The Fund has dealt with these issues from time to time in the past, but I believe that renewed interest in, and in-depth study of, these issues is warranted--possibly involving academic experts in a seminar--at an early opportunity, and would contribute greatly to enhancing the quality and effectiveness of the Fund's advice. I would emphasize that the Fund is the most appropriate institution to pursue them in light of its given mandate.

Regarding currency stabilization funds, I do not think immediate priority should be given to this issue. Board discussion of this matter could be delayed until after the Annual Meetings.

As to the adjustment of international debt, I support Mr. Bergo's statement that it would be beneficial to have ample time to review and discuss procedures for orderly adjustment of international debt.

As regards "other possible papers," I support postponing or canceling all the policy papers mentioned in this context, in light of their lower priority.

On administrative and budgetary matters, I understand that the Chairman agreed at the Board discussion on staff compensation that the exchange rate applied to pensions and the home leave business travel allowance would be reviewed. Therefore, I would like to confirm that the review of selective staff compensation issues includes a review of the exchange rate applied to those benefits.

Mr. Shaalan made the following statement:

I am in broad agreement with the work program outlined in the Managing Director's statement. I have to say, however, that the current work program period is virtually certain to be at least as intense as that leading to the recent meeting of the Interim Committee. Nearly one half of the membership is in program or near-program status. Moreover, the period ahead will witness stepped-up surveillance activities, and policy items of a wide-ranging nature will need to be covered prior to the next Annual Meetings. Therefore, unfortunately, one cannot realistically expect a moderation in the work program from the torrid pace the Board, management, and the staff had to endure earlier this year.

Nevertheless, every effort should be made to smooth out the work load and to possibly shift some items until after the Annual Meetings. In this connection, I agree with Mr. Bergo's suggestion to discuss the papers on adjustment and growth after the Meetings, rather than in August as proposed. The

preparation of papers described as "other policy papers" in the Managing Director's statement could also be postponed. Moreover, I am not sure that the proposed discussion in August of a paper on the Fund's financial structure and the adjustable norm is likely to bring us any closer to agreement on the relevant issues than has so far been possible on the basis of numerous discussions on the subject. Until there is a clear indication that there is adequate support for an amendment of the Articles, it may not be particularly productive to continue to devote resources to this line of work.

As to other elements of the proposed work program, I would add the following comments. First, in line with the Interim Committee's guidance, the proposed review of the role of the Fund is appropriately cast as closely linked with the question of the adequacy of the Fund's resources. This link is obvious and logical, but it is not exactly new or only the product of recent developments in capital markets. It has figured importantly in previous quota reviews. What may be different this time around is that the proposed review of the Fund's role is likely to be more wide-ranging in nature than previous reviews. Under these circumstances, the proposed work in connection with the Eleventh Review of Quotas and other quota issues could unnecessarily outpace deliberations on the role of the Fund. This kind of uneven progress has tended in the past to lead to requests for additional technical work on quotas when the real difficulties in making progress lay elsewhere. We should make every effort to avoid a repetition of this time-consuming and unproductive pattern.

The Interim Committee's call for "rebalancing the Fund's efforts" in the area of individual country surveillance underscores the need for selectivity in applying strengthened surveillance. Thus, I am in full agreement with what Mr. Al-Jasser has to say on this point.

I look forward to the proposed informal meeting on options for conducting a review of the role of the SDR. At this stage, I would only say that the "involvement of outside experts" called for by the Interim Committee should not translate into no or limited involvement by the ultimate experts on this matter: the Fund's own staff. Moreover, every effort must be made to impart to the review as broad a perspective a possible.

I also look forward to the discussion on the follow-up paper on issues relating to Fund financing for currency stabilization funds. I take it that the paper will be scheduled for consideration by the Board prior to the Annual Meetings.

It does not appear from the reference to the paper on the review of the compensatory and contingency financing facility that the paper will go into the continued appropriateness of the contingency element of the facility. I would not insist on revisiting this issue, but I continue to question the virtue of retaining the contingency element in its present form.

I support the call by many colleagues for a more structured approach to prioritization. I therefore agree with Ms. Lissakers's suggestion regarding the preparation of a priority list on the basis of today's discussion. I also agree that a discussion of the relation between the twice-yearly work program exercise and the preparation of the budget could enhance the usefulness of this exercise. But, the extent to which that will turn out to be the case depends ultimately on our willingness to ration out activities and resist the temptation of adding new tasks--something we have not been very good at in the past.

Mr. Evans made the following statement:

I enjoyed the statements by colleagues; they all had some very constructive suggestions, particularly the statement by Mr. Clark.

The Managing Director has been commended for the careful prioritization in this work program. I would like to commend that, but I unfortunately do not feel that there has been enough prioritization yet, and I would like to see us have another go at this in the way that Ms. Lissakers has suggested, namely, on the basis of a further document following this meeting, and perhaps a subsequent meeting as well.

In terms of our priorities, I agree with Mr. Clark, Mr. Kiekens, and others that the priorities established by the Interim Committee were improved surveillance and the role of the Fund. The adequacy of the Fund's resources, then, follows from that.

Like others, I was disappointed that the paper on the relation between the twice-yearly work program and the preparation of the Fund's budget could not have been ready before this meeting. I fully share Mr. Al-Jasser's view on the desirability of some presentation of the costs of specific pieces of work.

The strengthening of the Fund's surveillance must indeed be our top priority. I wonder whether the timetable on the provision of data to the Fund is unambitious. I agree with Mr. Kiekens that we should try and come to some firm conclusions

on this, as well as on the issue of provision of data to the public, before the Annual Meetings.

I very much agree with Mr. Bergo and Mr. Mesaki that the regional surveillance papers are not priorities. We do not need another discussion of the CFA franc zone less than a year after the previous discussion, and there is no rush to discussing progress toward EMU.

One of the issues we have discussed a number of times is the respective responsibilities of this organization and others, such as the OECD. When we consider labor markets in industrial countries, I would have thought that we could make good use of the work done by OECD in that area and not study this in detail ourselves. Moreover, I notice that there are two proposed fiscal policy studies on taxation and unemployment and on aging populations, which are both areas of the OECD's work program. I see no need to duplicate efforts in those areas.

I very much welcome the additional capital market material for the world economic and market developments discussions.

We are due to talk about the prospective SDR review on June 19. I think that the discussion should cover the conduct of the review and not only the proposed conference on the subject.

It is suggested that there should be annual reviews of the CCFF and access policy. It seems to me we only recently discussed and changed access policy, and I wonder, therefore, whether further resources need to be devoted to that. Similarly, in terms of our work leading up to the next Development Committee, I would hope that would not take too much time, either of the staff or this Board, because this Committee is becoming rightly, in my view, mainly a Bank committee.

As to our August discussion on debt and financing for developing countries, I very much agree with Mr. Bergo that the paper on the use and design of limits on external debt in Fund arrangements should be accorded a higher priority and would suggest that it should be taken up at the August discussion.

One or two colleagues have mentioned the review of staff compensation issues, which is presently scheduled for after the Annual Meetings. I thought after our discussion in April it would be most sensible to proceed by providing the CAP at an early stage with a menu of options for further study, and enable this Board to direct the staff in a way that would better focus efforts on areas that are likely to demand support for change. We did not want a far-reaching review of every possible subject,

and priorities in that regard would be best discussed before the Annual Meetings.

You will be disappointed if I did not refer to the need to take forward the work on evaluation. Again, I find the timetable here vague, and I would suggest that a short paper be circulated to Directors before the informal Board recess describing what evaluations are currently being done and the timetable for further action. My strong preference, like Mr. Al-Jasser, would be to seek clear proposals for an evaluation unit in terms of options that management might wish to put before us.

Mr. Kafka made the following statement:

I am grateful to the Managing Director for his statement on the work program, and although all of its items are of unquestioned relevance, I am not sure that we can manage this very heavy program. I agree with much, if not everything, that Mr. Mesaki and others have said on how we could alleviate the work load.

On strengthening the Fund's surveillance, we look forward to the two promised papers on timely provision of data and standards of publication. Timely provision of data is an obligation, but it must be linked to the strongest possible measures to avoid leaks. My authorities have been very much upset by the fact that the deliberations of a meeting of the so-called surveillance committee of the staff were leaked recently, and they were not comforted by the fact that the leak was to a large extent erroneous.

As to the publication of country information, we must bear in mind that this is not a statutory obligation of members of the Fund under the Articles except in cases, if any, where the Articles specifically mention it.

We support your call to pay greater attention in our surveillance activities to published financial market data.

Regarding individual country surveillance, we look forward to the promised report on the outcome of the recent retreat of department heads. In this connection, I hope to have some additional suggestions on Board procedures to present to an informal meeting of Executive Directors. At the same time, I feel very much that we should give less urgency to regional surveillance than seems to be proposed in your statement.

On the world economic outlook and other points mentioned under this same heading, the old question of how to stimulate

savings seems to be missing. In this connection, an examination of how fiscal policy can be made more flexible in the short run may be worthwhile. Conceivably, much of the Board's time could be saved by coordinating in one group of sessions, the various fiscal problems contained in the work program, as Mr. Evans has already suggested.

Regarding the Madrid Declaration, we assume that the next six-month review on policy advice and brief background notes on individual countries will not be published, but we would like to be reassured on this point.

On capital markets, we welcome the intention to prepare a half-yearly interim update of the capital markets report, assuming that this will not place an undue burden on the staff. In this connection, a new item on a possible proposal to create an extra "loan quota" in the Fund--that is the name that the newspapers used--might merit some comment from management or from representatives of the Group of Seven industrial countries.

As to the financial resources of the Fund, we agree that Fund liquidity is presently adequate, but we nevertheless think that the Board should not be shy about investigating the measures that we may have to be taken to ensure that it will remain adequate in the future.

Regarding quotas, it is not clear why a new paper on the calculation of quotas for the Baltic countries, Russia, and the other countries of the former Soviet Union is to be prepared before the end of the year; this might perhaps be avoided.

We look forward very much to the informal meeting on June 19 to inquire into the modus operandi of a conference on the SDR to be held early next year.

On gold sales, we have already had an exhaustive discussion of this issue earlier today. On currency stabilization funds, I share the view of one of my colleagues that this should be avoided; currency stabilization is important, but the subject is so vast that it might be better to postpone this discussion, although not the beginning of its preparation.

We are encouraged to see that the planned review of the CCFF is expected to be brief, but we believe that it might be dispensed with altogether. Perhaps we can come back to it after the Annual Meetings.

The planned paper on international debt adjustment is interesting but, at present, perhaps not urgent. We look

forward to the promised papers on financing for developing countries and their debt situation. The utmost care should, of course, be taken to avoid leaks which even, if erroneous, could be extraordinarily embarrassing.

Regarding the relationship between growth and adjustment policies of various kinds, we are sure that care will be taken to avoid duplication in respect of the discussion on the relationship between fiscal variables and growth. We warmly welcome the proposal to bring forward for consideration after the Annual Meetings a paper on staff compensation issues for the Committee on Administrative Policies rather than leaving this until the spring of 1996. We have been wondering, also, whether papers relating to recruitment and retention experience in 1995 and staff compensation could not be advanced a bit.

As to evaluation of the Fund's work, we sympathize with management's proposal to consider various ways of achieving this, but we are somewhat concerned that a lengthy period of experimentation seems to be contemplated before establishing a system of evaluation. Perhaps we could advance this discussion somewhat.

Mr. Schoenberg made the following statement:

I welcome today's discussion, which gives us a chance to look ahead at the coming 11 months of work. I stress the time horizon of 11 months, because like Mr. Shaalan, I would not wish to create too much additional work pressure by wanting to discuss too many items before the Annual Meeting.

I am glad to note from the Managing Director's statement that he attempted to prioritize the work program. Unfortunately, the forceful prioritization of the Interim Committee deviates from the Managing Director's attempt in an important respect. The Interim Committee gave the Board a clear mandate to work to strengthen the Fund's surveillance. Some other issues, among them the Fund's financing, the role of the Fund, quotas, SDR issues, and a possible continuation of ESAF are only to be reviewed or examined. This gives us a clear prioritization of work to be done before the next Annual Meetings and during the course of the coming year.

First and foremost, we must focus and strengthen the Fund's surveillance, especially by rebalancing its effort to give increased emphasis to the situation of those members where economic disturbances or policies could have broader implications for other countries. It is unfortunate that the report on the discussions and conclusions of the Fund's Department Heads at their retreat more than two weeks ago was

not available for today's discussion. As this delay promises a major effort with regard to original thinking, I eagerly look forward to receiving this report as soon as possible. This point may be especially important because it has major implications for the future role of the Fund, the second item on my own list of priorities, after strengthened surveillance. Our recent discussion on capital markets and the excellent background documentation provided for that discussion should play a major role in our deliberations on the future role of the Fund. In any case, I share the views of those speakers who have stressed the importance of globalized capital market developments for various areas of the Fund's work.

The third item on my priority list is the next general quota review. The Interim Committee has attached great importance to this matter, and we should not drag our feet on it, particularly as this is a more time-consuming exercise. I would not like to see other financing methods given priority because the time available falls short of the time required for a quota increase. The liquidity position of the Fund and its financing needs are an integral part of the quota discussion and should not be carried forward independently.

Next on my list of priorities is SDR issues. This, however, reflects more their possible systemic importance than an urgent time frame. I am well aware that we will discuss this matter in detail at our meeting on June 19. I was somewhat concerned, however, by the fact that the Managing Director seems to have decided on certain important parameters in advance, without consulting the Executive Board. While I do not wish to go into detail today, I want to make it very clear that we will reserve our judgment on the Managing Director's proposals until our meeting on SDR issues. This especially includes the question of whether a conference on the basis of Fund staff papers would be the best way to organize a discussion on the future role of the SDR.

Some other points the Managing Director has mentioned are not urgent or important enough to warrant their inclusion in a list of priorities. One of them is the ESAF, as the remaining time frame of the recently established ESAF II gives us ample time for discussing whether a successor is warranted and, if it is, how it should be financed. On the multilateral debt of some severely indebted poorer countries, as we have also made clear on numerous occasions and at this morning's discussion on the Fund's gold, we believe that the circle of countries possibly needing additional assistance is small and should be dealt with on a case-by-case basis. We have also made clear that the approach taken by the Fund and by the multinational development

banks must necessarily differ because of the different nature of the institutions.

I would return to my first point, strengthened surveillance, and I commend management and staff for their efforts to reshape and rejuvenate the country matters sessions. I believe that the newly chosen approach of regional and systemic analysis of a number of countries is worthwhile and should be further pursued. While some of the presentations in the past have not had the level of quality to which we have grown accustomed in this institution, I believe the general approach to be fruitful and look forward to further sessions of this kind.

I would like to conclude my statement by making some specific suggestions on how the work pressures on this Board can be alleviated, or how a better prioritization could be achieved.

I would strongly suggest a reintroduction of the 24-month consultation cycle for those members with lesser regional or systemic importance. As we generally believe that a 12-month cycle is advantageous for all member countries, such a lengthening of the consultation cycle for some members could be temporary and could be reversed once the Board's excessive work load has somewhat lightened.

Reviews of programs that are completely on-track, and where no waivers are sought, should generally be handled on a lapse of time basis. This, of course, does not preclude the possibility of any Director requesting a Board discussion on such a review.

Different staff documents dealing with the same, or largely similar, topics should be concentrated in one Board discussion. An example in the current work program would be the discussions on the adjustment of international debt and on financing for developing countries and their debt situation; or one could combine in one discussion the fiscal policy studies.

The discussion of staff papers of secondary importance to the Fund's mandate should be postponed. The Managing Director's statement identifies some such secondary papers, and earlier speakers have made other valuable suggestions.

Last, but by no means least, the efficiency of this Board work would be greatly enhanced if all relevant papers were available at the agreed time, that is, three weeks prior to the Board discussion.

Ms. Lissakers recalled that her chair had shown considerable interest in a discussion on, and additional analysis of, the best management of the myriad of exchange systems currently in existence. Her view on the timing of the Board discussion would be driven partly by whether there was an imminent user of a currency stabilization fund, in which case, the Board should proceed on the accelerated schedule that management had suggested. Otherwise, the consideration of that issue could be delayed somewhat, but not because it was not considered to be important, but because it was not absolutely pressing to reach conclusions on that particular issue before the Annual Meetings.

Mr. Havrylyshyn made the following statement:

The Managing Director's statement indeed comprises a program for a great deal of work before and after the Annual Meetings. I have no significant divergence from what is proposed. At the same time, I join other Directors who suggested that it would be useful, in order to avoid too heavy a Board schedule in the weeks before the Annual Meetings, to have a lucid picture of the subjects on which the Board must decide--namely, Mr. Clark's "green light" list--and the subjects that can be postponed until after the Annual Meetings--that is, Mr. Bergo's "yellow light" list.

I very much agree with the outline of concrete priorities given by Mr. Clark. Together with Mr. Clark and Mr. Waterman, I would very much appreciate an early continuation of the discussion on the future role of the Fund and the lessons from the Mexico crisis. This is very necessary to facilitate the assessment of important issues related to the strengthening of the Fund's financial resources. On a related matter, it is somewhat disappointing that management has not yet given a formal response to the Whittome report. Like Mr. Bergo, I too hope that "the necessary resources have been devoted to provide input to the Group of Seven's Halifax meeting."

After these general remarks, I would like to raise a few issues for emphasis.

I agree with those who support starting work on the Eleventh General Review of Quotas as soon as possible, for it is a drawn-out process and waiting until after "role of the Fund" issues are settled may result in a loss of too much time. One issue that is particularly relevant in this respect is recalculations of quota for the newly independent countries that we find so difficult to label and that have many competing names.

As regards surveillance, we are very pleased with the announced first six-monthly review of Fund policy advice as a

follow-up to the Madrid Declaration. I also look forward to continued discussions on developing standards for the provision of data to the public and to the Fund. Perhaps the latter could be brought forward somewhat so that discussions could start before the informal recess.

One item is entitled "currency stabilization funds," but the description appears to be much broader, namely, an assessment of exchange rate anchors or pegs. That should have been the title, and under that title a currency stabilization fund is but a possible instrument. The issues of where and how to enter a peg as well as when and how to exit are in fact more important. The Board has often discussed delicate cases in which exit possibilities are sometimes or frequently implicitly and--less frequently--explicitly, mentioned. I do not think that we should postpone that issue. If we do take up that issues, it would also be reasonable to consider what kind of role a currency stabilization fund might have in this strategy. Thus, I support that approach.

Like Mr. Bergo, I doubt whether the supervision of global capital markets should be the main focus for next year's capital market exercise, and whether a paper on banking supervision is needed. Instead, the Fund should concentrate on macroeconomic aspects of financial market developments. I am in agreement with the Managing Director's explanation of what this paper would address.

I also agree with Mr. Bergo's "yellow light" list for some postponement of items, excepting the discussion on procedures for the orderly adjustment of international debt. This should take place as scheduled, because it is an important potential element in the future role of the Fund. I would add to this list of postponable items discussions on macroeconomic aspects of pension schemes, whose importance is large, but less immediate, and the paper on trade and payments in that part of the world with various competing labels, such as newly independent states and countries of the former Soviet Union. This can be postponed because it is both too late and too early: the previous mechanisms that tied these countries together--a single currency, a common payments mechanism--have long disappeared, and the trade of some of these countries--the Baltic countries, Moldova, Ukraine, and some Central Asian countries outside the former Soviet Union--is evolving. Also, the process of macroeconomic stabilization is still too limited and too fragile to give much meaning to an analysis of trade flows, namely, how much they are affected by continued macroeconomic instability, and how much by specific trade regulations.

As to the financial structure and the adjustable norm, this meeting might take place earlier than now suggested--possibly in August. I recall that the Interim Committee in October 1994 asked the Board to report on this issue.

I would make one general point on work efficiency. As most Directors have noted, the work program is demanding. Furthermore, the strengthened surveillance strategy will demand greater effort on the special problem cases, and all of us seem to accept, at least as a challenge, the Whittome hypothesis of doing more without increased resources. To be able to meet this challenge, one needs, first, to identify the special cases where more intensive and strengthened surveillance will require refocusing resources and, second, to identify areas where resource savings can be effected. I can see some mechanisms clearly developing for the first identification--the new country matters format, the six-month reviews of policy advice in connection with the Madrid Declaration, and the six-month capital markets discussion. I am less sure that I see a mechanism for the second identification. I wonder whether there are some ideas on this already, perhaps many, from the previously mentioned meeting of department heads, including on the problem noted on Article IV consultations, with only 128 of 170 brought to the Board?

Mr. Zhang made the following statement:

At the outset, let me join previous speakers in welcoming the Managing Director's statement on the work program for the period up to the Annual Meetings in October 1995, and the work needed to be undertaken in the period up to the spring 1996 ministerial meetings. This is very helpful for today's discussion. I also share the Managing Director's view that strengthening the surveillance role of the Fund and making our institution ready to provide adequate financial resources to members in need are indeed top priorities of our work agenda, while also taking into account the Mexican financial crisis and its impact on other countries, the volatile movements of some of the major currencies, and the complex environment in which many countries are endeavoring to adjust their economies. We should therefore make every effort to decide how to best use our time to fulfill our responsibilities as mandated by the Interim Committee. I can broadly endorse the work program proposed by the Managing Director, although it is, as usual, intensive and challenging.

As to the priorities of the work agenda. First, I fully share Mr. Bergo's view that a high priority should be given to the Eleventh Review of Quotas, as we all agree that the Fund should be ready to provide the necessary financial resources to

member countries when they ask for help, especially in emergency circumstances. On the work related to the Eleventh Review of Quotas, we look forward to the discussion of the staff paper on the evolution of the share of Fund quotas of developing countries. The issue of the long-run decline in the quota share of developing countries should be addressed. We hold the view that the economic strength of developing countries must be truly reflected in terms of their quota share in the Fund. As it will take some time for the Board to come to a consensus on the issues that will decide a member's quota, we also support the early Board discussion of all papers on the Eleventh Review of Quotas.

On another top priority, the role of the Fund, I agree with the Managing Director that there is a close connection between strengthening the Fund's surveillance function and maintaining the Fund's capability to provide financial resources. Nobody wants to see another Mexican-type crisis. However, if the Fund wants to play a meaningful role in maintaining international monetary system stability, it should be prepared to accommodate such a situation, where a member country cannot cope with the crisis on its own or cannot garner the necessary support from bilateral sources. In this context, the importance of an early beginning of the Eleventh Review of Quotas cannot be overemphasized.

I also regard as vital the prioritizing of work on developing the framework for Fund collaboration with the World Trade Organization. A clear division of responsibilities between the two institutions is absolutely necessary. For example, it should be made clear that it is within the Fund's jurisdiction to exercise surveillance over the exchange rate policies and exchange arrangements of member countries. This is an important issue, especially for the group of member countries considering entry into the World Trade Organization.

On the issue of ESAF operations and its funding, in my view, ESAF lending is of great importance to this institution. Through this concessional lending instrument, the Fund will be able to support the adjustment efforts of the poorest developing countries better than it would otherwise. We reiterate our support of the continuation of ESAF operations. It is desirable that the Board take up the discussion of the paper on the operations for continued financing and adapting of the ESAF as early as practicable.

On low-priority items, I agree with others that they are better placed on the Board agenda after the Annual Meetings. In this connection, I share the view that the paper on procedures for the orderly adjustment of international debt can be

submitted to the Board for discussion at a somewhat later date, instead of in June. I agree with Mr. Al-Jasser that "it is important for the Fund to refrain from giving advice in areas where it has no jurisdiction or expertise, for example, making political judgments." I also believe that greater collaboration and coordination between the Fund and other international institutions should be called for, thereby avoiding overlapping as much as possible.

The envisaged increased work load for the Board, the management, and the staff, which seems unavoidable, will have an impact on the administrative budget. This should be taken into account when we discuss papers related to budgetary matters.

Mr. Autheman made the following statement:

I am in broad agreement with the amended, better prioritized, work program that is gradually emerging from our discussion, thanks to the initiatives taken by Directors in their statements. Therefore, it should be rather easy for the Secretary to draft a conclusion of our discussion. I hope that we will be able to conclude it rapidly.

I have specific comments on the most important issues. I would only indicate that I am grateful to my colleagues for the many proposals for postponing some items or circulating others to the Board for information. In such cases, I would only note that a concise and clear executive summary will be very helpful for Board members interested in the topic.

I also think that, in the future, the Secretary should be less reluctant to ignore, in the course of preparing the work program, topics that were requested at Board discussions and were unanimously rejected as soon as they appeared in the work program. I have noted that several topics that my colleagues have asked to be slated were requested during previous Board meetings. I would appreciate it if Mr. Van Houtven were more active in the future and less obedient to past Board requests.

On country surveillance, I reiterate my position that the 12-month cycle is not appropriate for all members. It is impossible to respect this view, so I continue to think that we should change it.

Moreover, I hope that we will give substance to the suggestion on developing a lighter scheme for countries that present no major problems. Maybe we should consider innovation and try and develop some lapse of time procedures, especially when the Secretary is well placed to expect that no more than

two or three Executive Directors and Alternates will actively attend the discussion, as quite often occurs.

On regional surveillance, many Directors have proposed that these topics be postponed or the papers be circulated for information. If the staff feels there are important issues that deserve discussion, they should bring them up in the framework of the world economic outlook; and there could be a chapter or an annex in the paper on the world economic outlook. Accordingly, they would get the Board's reaction on those issues.

On capital markets, I agree with those who have emphasized the need to relate this exercise closely to our mandate and focus on balance of payments, exchange rate, and market stability issues. I would not support giving too much attention to supervision issues which are well dealt with in other fora.

On strengthening the Fund's financial resources, the order of items in the Managing Director's statement reflects very well the order of priority, so I think that we could easily eliminate the items relating to gold, which has recently been discussed, and to the possible amendment of the Articles, which would probably result in a loss of Board time.

I would be very pleased if various proposals made by colleagues to reduce the list of items were reflected in the summing up.

Ms. Lissakers said that she supported Mr. Autheman's comments. She continued to insist on having a clear set of priorities, particularly because it would be easier for Directors to discipline themselves with respect to requests for additional staff papers or studies. It would also make it easier for management to discipline the Board, insofar as it would point out that the Board had agreed on certain priorities and that such requests could conflict with those priorities, taking up valuable staff time and resources.

Mr. Clark, recalling Mr. Autheman's and Mr. Schoenberg's proposal to put countries back on a 24-month cycle, observed that several countries in his constituency might be candidates for such less frequent examination. He would argue against that to the extent possible, even though he agreed with the basic premise that the Board should be spending less time on them. He would like to see staff proposals for more streamlining, for example, shorter assessments, no background paper on recent economic developments or issues papers, smaller mission teams, and more frequent use of lapse of time procedures. At the same time, he would point out that every one of the countries in his constituency had so far benefitted significantly from the Board's consultation discussion, which had also given his office an opportunity to follow up with the member on certain issues. He therefore

saw great utility in maintaining an annual review, but the usual procedures might be adapted so that the candidates that Mr. Schoenberg and Mr. Autheman had in mind would be dealt with in a different manner.

The Chairman said that, in view of the importance of the issue, he would like to recall that the Board had only recently decided to abandon the bicyclic consultation procedure that had been adopted a few years earlier to allow for a major redeployment of staff resources in order to respond to the economic impact of the Gulf War and the collapse of the former Soviet Union. That practice had proven unsatisfactory insofar as it reduced the Fund's ability to influence decision-making on major macroeconomic policies when annual budgets were being considered in member countries. In fact, the Board had became so concerned about the difficulties created by the temporary abandonment of the annual consultation cycle that management had pledged that it would make a major effort to return as soon as possible to annual consultations for all members.

The size of the membership and the attendant responsibilities posed a considerable challenge, especially as consultation discussions had been concluded with only 130 countries out of 180 in 1994, the Chairman observed. That underlined the importance of streamlining the Fund's Article IV consultation procedures and reporting. Management had been discussing that matter intensively with the staff, and a report would be forthcoming to the Board. He would urge that the Board try to maintain the annual consultation cycle because it helped maintain a dialogue with member countries. It would be paradoxical to renounce that practice at the very moment the Board was discussing the strengthening of Fund surveillance.

Ms. Lissakers said that she deferred to the experience with consultation cycles. At the same time, she saw some scope for Mr. Autheman's suggestion to conduct more limited Article IV consultations for some countries, perhaps on a rotating basis with a full review, so as to reduce the burden on the staff, particularly given the number of countries to be covered.

With regard to Board procedures, Mr. Kafka's committee on improving Board procedures had had intensive discussions on the possibility of commenting on Article IV consultation reports, on a lapse of time basis, using electronic mail, Ms. Lissakers recalled. On occasions when Directors might have only one or two brief comments on points raised by the staff papers, a full Board discussion might not be necessary, and the consultation could be concluded on a lapse of time basis, with the understanding that the comments conveyed by electronic mail on those occasions would be made available to all Board members and would be reported to the country in question.

Mr. Kafka remarked that he was continuing to explore with the staff some suggested changes in Board procedures. In that context, it should be noted that the use of electronic mail as described by Ms. Lissakers posed some difficult problems. Moreover, he believed that considerable thought

should be given to the practicality of bare-bones consultations every second year; he imagined that the same amount of information would have to be digested to produce a streamlined report as would be to produce the usual staff papers.

Ms. Lissakers commented that in suggesting a bare-bones consultation, she had in mind one focusing on central concerns and forgoing a collection of exhaustive papers on structural issues, for instance. That was not to say that such issues should be ignored, but rather that it was not necessary to explore them in depth every year for every country.

The Chairman said that he would suggest that a discussion on streamlining should await further discussion in the Kafka group and some staff evaluation of the suggestions of that group. Early progress in that area was a must if the annual consultation cycle was to be maintained.

Mr. Evans observed that while annual consultations had been agreed in principle, that had not be possible, in practice. Mr. Clark's suggestion to look carefully at slimming down the Article IV consultation process was therefore an important one. An effort should be made to maintain the quality of consultation papers without always achieving the quantity of documentation that was usually made available to the Board.

Mr. Havrylyshyn said that while he had raised the issue of looking for mechanisms to identify resource savings opportunities, he believed that it was important to try to keep to the principle of annual consultations. He agreed with Mr. Clark on the need for streamlining. Success there would not only save resources but also improve the quality of the consultation process.

Mr. Schoenberg remarked that he had taken note of the views of Directors on the various advantages of an annual consultation cycle. He was completely open to all possibilities for streamlining the Fund's work in that regard. He would point out, however, that through April 1995, more than 300 country-related items had been scheduled for Board discussion. As those items represented the overwhelming majority of the work of the Board, if Directors were not in a position to cut back on the time devoted to that aspect of the Fund's work, the concept of prioritization of the work program became practically meaningless.

The Chairman said that the crucial issue was streamlining work procedures with respect to both the staff's conduct and reporting about Article IV consultations and the Board's work practices, including a bold approach to lapse-of-time procedures. It was also essential that Article IV consultations, which were are the heart of the Fund's surveillance completed on a timely basis.

Mr. Mirakhor observed, and the Chairman confirmed, that despite the establishment of procedures for concluding some Article IV consultations on a lapse of time basis, it had not been used to date.

Mr. Fernández made the following statement:

We agree with the emphasis placed by other Directors on the need for greater prioritization of issues contained in the work program. The last Interim Committee communiqué indicated what must be considered our priority work to be accomplished by the Executive Board in the next few months before the annual meetings. In our view, the Managing Director's statement on the work program is fully consistent with the request contained in the communiqué.

The main message of the Interim Committee has been the need to strengthen Fund surveillance and financing. In this regard, a discussion of a paper on the role of the Fund on the basis suggested by management is appropriate. As we consider this paper a high priority, and an umbrella for the specific request made by the Interim Committee, we think that it should be brought to the Board as soon as possible. The Interim Committee is asking the Fund to work on six issues related to surveillance and on six issues related to the Fund resources.

On surveillance, in our reading of the above-mentioned communiqué, the Interim Committee asked the Fund, first, to strengthen its surveillance, in a symmetrical manner and taking into account the lessons to be drawn by member countries and the Fund itself from the recent crisis in Mexico. This request should be taken into account in preparing the papers on the world economic outlook and the follow up to the Madrid Declaration. These two sets of papers should be taken up together, or very close to one another, by mid-September so as to save time and ensure their consistency with each other. This multilateral surveillance exercise should pay particular attention to linkages between industrial and developing countries and suggested by the Managing Director.

Second, the Fund is asked to establish a closer and more continuous policy dialogue with member countries and to be more frank and candid in its recommendations. Regarding this point, we welcome the Board's more frank and open discussions on recent Article IV consultations and encourage the staff to follow suit.

Two additional comments related to bilateral surveillance: First, the staff, by placing increased stress on a country's deviation from right policies compared to a neighbor country could increase pressures on the authorities to move in the proper direction. Second, I am very much interested in the suggestion made by Mr. Clark and Ms. Lissakers on streamlining and the biennial consultation cycle.

The Interim Committee also asked Executive Directors to identify emerging tensions at an early stage, to use integrated market data, and, for that purpose, to ensure more regular and timely provision of data provided by national authorities. Regarding this issue, the paper scheduled for mid-September on the provision of data by the Fund should be discussed in late-August together with the paper on the establishment of standards to guide members in the provision of data to the public.

The Interim Committee's request to pay more attention to members' financing policies and the soundness of their financial sectors in the Fund's surveillance activities is related, in our view, to the paper on capital account liberalization, and it is fine to discuss it in July. A companion paper on soundness of financial sectors should not be postponed until early 1996, as many Directors have stressed the importance of the financial liberalization and banking supervision in relation to capital movement liberalization. Fund advice on capital account issues should take into account issues related to the structure of the financial systems and its degree and degree of development.

The Fund is asked to give increased emphasis to the surveillance of those members where economic disturbances or policies could have broad implication for other countries. This request should also be taken into account in the discussions on the world economic outlook and the Madrid Declaration paper.

On resources, we also have a clear mandate from the Interim Committee. The communiqué states that at the next annual meeting, the Committee will review the progress made, not only in strengthening Fund surveillance, but also in strengthening Fund financing. In this regard, the Interim Committee asked the Fund, first, to continue to review the adequacy of Fund resources, taking into account the sharp decline projected in Fund liquidity over the next three years. This issue should be discussed in the above-mentioned paper on the role of the Fund.

Second, the Board is to carry forward its work on the Eleventh Review of Quotas in connection with its review of the role of the Fund. We fully support the calendar proposed by management on the issue of quotas. This matter should receive top priority. Everybody knows it takes at least two years to complete a review, even if there is broad agreement among Directors. It is therefore urgent to start immediately with the preparatory work.

Third, Interim Committee also requested the Fund to examine the issue related to borrowing by the Fund from members and in particular the role of the General Arrangements to

Borrow. Work on this issue should, among other things, review to what extent the present form of the General Arrangements to Borrow is an instrument flexible enough to be useful and for what purposes.

Fourth, we are to initiate a broad review with the involvement of outside experts on the role and function of the SDR. On this matter, we would prefer that the conference mentioned by management take place in the fall or early winter, with another, more restricted discussion before the spring meetings. The staff should not necessarily produce the papers to be discussed in these conferences. Some information on the preparatory work should be provided to Annual Meetings participants.

Fifth, we are to examine the options for continued financing and the adaptation of the ESAF. This item may be discussed in late August or early September as proposed by management.

Finally, we are to examine how the Fund can better assist members in coping with sudden market disturbances and its catalytic role. This could be taken explicitly into consideration in the paper on the role of the Fund. Also regarding this request, we attach great priority to the discussion on an international debt adjustment facility and the date proposed for that discussion of this paper is agreeable to us.

All these items must be taken up before the Annual Meetings. There are, however, three additional items that are not new but are of great importance to us and on which we have not completed our work. I am referring to the papers on the Fund's financial structure, on issues relating to developing countries' financing, and on exchange rate rules. I call this paper "exchange rules" rather than stabilization fund because if the forthcoming paper is only a follow-up of the paper we discussed last year, it is not a priority paper and should be postponed. In this regard, I fully share the comments made by Mr. Havrylyshyn.

We share the view of Mr. Kiekens concerning the unbalanced distribution of the work load of the Board across the year. We can do nothing about the light agenda in May, but we may wish to postpone until October or November those items related to regional surveillance and issues contained in points three, four, and five of section five in the management's statement. We are making this proposal not only because we consider these issues to be less important, but because we will be able to

devoted more time to them in the fall when we are less pressed for time.

Finally, we look forward to participating in the discussion of the paper linking the work program exercise and the preparation of the Fund's budget.

Mr. Barro Chambrier made the following statement:

Like previous speakers, I welcome your statement on the work program.

Undoubtedly, it is an ambitious one, but it reflects the mandate set out by the April Interim Committee meeting. Overall, I support its general thrust and welcome the efforts that have been made to distribute evenly the work load associated with country matters throughout the period up to the Annual Meetings. As the work associated with policy matters is also projected to be heavy, I hope that, whenever possible, every effort will be made to spread the Board discussions on these matters, so that the pre-Meetings agendas do not become overly loaded. To prevent a bunching of papers over a short period of time, I agree with previous speakers that priorities need to be clearly set and papers should be properly sequenced as many of the topics are closely related.

With the major changes occurring in the world economy and the acceleration in the globalization of markets, I welcome the high priority being placed on the review of the role of the Fund as well as the strengthening of the Fund's surveillance exercise. While our approach should be to find ways to prevent major disturbances from occurring, it will be impossible to prepare against all eventualities, and therefore, the paper on ways of strengthening the Fund's financing, which I hope will also consider the issue of rapid disbursement in cases of severe shocks, will have to be given equally high priority. In this context, the Eleventh Quota Review and the review of the role of the SDR should be taken as quickly as possible. I attach a high importance to the paper on the evolution of the share in Fund quotas of developing countries. In my view, this issue needs to be clarified before we can move on to other quota-related issues.

On regional surveillance, some papers that can have a direct bearing on the design of Fund programs should not be delayed. In particular, the paper being proposed for the CFA franc countries appears appropriate, as all these countries have embarked on major adjustment programs with Fund support. Moreover, as more than a year has passed since the devaluation of the CFA franc, it would be useful if in addition to analyzing

the economic and financial effects of the devaluation, the paper would also include an analysis of the social impact.

Our last discussion on aid flows showed that major changes currently taking place in the area of bilateral assistance could have major implications for Fund programs. Therefore, the proposed papers on debt and financing for developing countries are timely. I hope that these papers will include suggestions that could lead to a permanent solution of the debt problem of the highly indebted, low-income countries. Similarly, the discussions planned on the ESAF are appropriate and should be taken in the same context. Mr. Clark's proposal on this issue is meaningful and I support it. However, unlike Mr. Bergo, I attach high importance to the papers on growth and adjustment policies. These papers can help us to improve the design of our programs as well as our advice to the membership on the proper policies to follow, and I agree with the proposed schedule.

On the world economic outlook and the implementation of the Madrid Declaration, I agree with the proposed approach and topics.

On the legal aspects of the Fund's financial structure, I share the view of Mr. Al-Jasser that we need to agree on the issue before preparing the legal papers for an amendment to the Articles. I would agree that there is no urgent need for the Board to discuss some papers, such as those on banking supervision, cross-border initiatives, and regional and payments arrangements; they can be either placed on the Board agenda for a later date or circulated for information only.

On the preparatory work for the Development Committee, I find the papers proposed appropriate.

Mr. Martinez Oliva made the following statement:

I greatly appreciate the way in which the Managing Director's statement has been designed, in accordance with the guidelines of the mandate of the Interim Committee, expressed in its communiqué of April 26, namely, to devote a special effort to strengthening both surveillance and the Fund's financial resources.

I find the long list of topics we are discussing today fully satisfactory, as it covers a large number of topics of interest for our institution. They range from the most pressing issues to those whose importance does not necessarily involve strong priorities or time constraints for the Board's agenda.

It is difficult to imagine that all the topics included in the rich and exhaustive list of issues could, or will need to be, considered by the Board before the Annual Meeting. I am convinced that, as some Directors have correctly pointed out, reaching a consensus about the priorities to be attached to the various issues, that is, identifying what is to be accomplished before the Annual Meetings, might prove to be a practical approach. It would certainly facilitate better planning of our activities for the next months in the most orderly and efficient manner.

For this reason, I would like to share the list of issues which this chair feels should be addressed before October.

The role of the Fund is an urgent and sensitive issue, which will require a great deal of work in the coming months. Given its importance, I would suggest that the discussion of the final report produced by the staff, to be submitted to our authorities, should be preceded by a series of meetings aimed at reaching a broad consensus on some preliminary issues, mainly institutional and definitional. In this context, I agree with the views expressed by Mr. Clark, and find the list of such issues he has suggested to be a good starting point for such a discussion.

Strengthening the Fund's surveillance is also a crucial topic, and the Managing Director's statement provides a rich list of items that are important for this purpose. Among them, the paper on the provision of data to the Fund and the follow-up to the Madrid Declaration are perhaps the most important priorities. I also believe it useful to work on the establishment of standards to guide members in the provision of data to the public.

Let me add that, in the context of surveillance, I consider the intensification of the discussion on capital markets crucial for the purpose of strengthening the Fund's surveillance. For this reason, I welcome the planned half-yearly interim update, tentatively scheduled by November. I also find extremely relevant the role, in our ordinary activity, of the world economic and market developments sessions, which provide the opportunity for a candid periodical discussion in the Board of sensitive matters.

Strengthening the Fund's financial resources is a delicate issue, involving several different aspects. Among them, the issue of quotas is perhaps the most pressing, as it will require the discussion of several technical aspects, as illustrated in the Managing Director's statement.

The question of borrowing by the Fund is important as well, being related, as Ms. Lissakers has correctly pointed out, to the important decision of whether to enhance the capacity of the Fund to respond quickly and effectively to extraordinary balance of payments crises that have broad implications for the world economy and the financial system. If the answer is affirmative, an exhaustive Board discussion of the issue should involve a review of the adequacy of the General Arrangements to Borrow and, in our opinion, would greatly benefit from a study of the possibility that the Fund be allowed to borrow from the market the resources needed to cope with crises stemming from reversals of capital flows.

Concerning the role of the SDR, I endorse the idea of discussing at an early date the way in which the review of the issue should be conducted. The work that the staff will already have completed by October in preparation for the conference scheduled for early next year might provide some background material for a preliminary consideration of the issue by Governors.

The three papers planned on the various aspects of the ESAF, as described by the Managing Director's statement, will constitute useful material needed to formulate a final view before the Annual Meetings.

Mr. Link made the following statement:

As usual, the work program presented by the Managing Director is impressive. Almost all of the tentatively scheduled issues are eminently important. However, this chair shares the view of previous speakers that there is a need to set priorities in our work. We also support Ms. Lissakers' request that our discussion today be followed by another meeting.

Let me briefly expand on some of the topics which deserve ample attention from the Fund. In our view, like many other previous speakers, the most important task in the period up to the Annual Meetings will be the review of the Fund's role. This concerns both the surveillance of its membership and its provision of financial resources.

As regards surveillance, the Mexican crisis has created a broad consensus that we need to sharpen our instruments. Therefore, we have introduced a few clear principles to strengthen surveillance, such as the obligation of Fund members to provide substantial economic data to the staff on a regular and timely basis, and to increase the confidence of the financial markets by improving the quantity of information on current economic developments. For the time being, we have to

watch carefully that these new principles are really implemented. We therefore warmly welcome the staff paper on the provision of data to the Fund, as well as the paper on standards in providing publicly accessible data. Concerning a more open dialogue within the Fund, our Board will have to lead the way by discussing more frankly the policy recommendations to member countries, and this without distinguishing between program and non-program, or large and small member countries.

Regarding policies on the use of Fund resources, we would argue for prudence in extending the Fund's financial assistance to member countries under the impression of the Mexican crisis. Therefore, we also see no need to hurry with the Eleventh Quota Increase. We, nevertheless, are looking forward to studying the forthcoming papers on different quota issues, borrowing by the Fund, and the further role of the SDR. We warmly welcome the conference on SDR issues tentatively scheduled in early 1996.

However, we believe that it is essential to reach a consensus on the role of the Fund before discussing the financing needs of the Fund. During past months, in many cases discussion on financial needs were blocked because there was no consensus on the future role of the Fund.

As for other issues, one dominant structural change in the world economy is the rapidly growing interdependence of capital markets. Therefore, we strongly support the idea to provide the Board with a half-yearly update of the capital markets report and with a paper on experiences with capital market liberalization.

Our recent reviews of adjustment measures under stand-by and extended arrangements have shown that the correlation between the arrangements and growth and investment is surprisingly weak, at least in the short- and medium-run. We therefore also give high priority to the staff papers that further elaborate on this issue.

In more and more countries, doubts are rising about the feasibility of financing the current social security system over the next decades. Hence, we welcome the paper on the macroeconomic effects of different pension schemes.

Regarding the paper on the use of limits on external debt in Fund-supported programs, we do not agree with the view that this topic could be postponed or even canceled. We think that it is appropriate to discuss this issue in the context of the Board discussion on multilateral debt.

Finally, the management may not be surprised that we warmly agree to improve evaluation of the work done by the Fund, including arrangements with experts outside the Fund.

Mrs. Guti made the following statement:

We are in broad agreement with the proposed work program and wish to comment only briefly on some items.

In general, we believe that the work program is a heavy one. Country-related activities constitute the bulk of the program, and will absorb much staff resources and Board time. The time to be devoted to the consideration of policy issues will also be substantial. There is the usual bunching before the Annual Meetings; in particular, the work load for the month of August is relatively heavy. Since the informal Board recess is to take place in August, I wonder whether there would be sufficient time devoted to the many items slated for that month. Perhaps some items might need to be shifted to other months. In this connection, we welcome the continued efforts to integrate requests for, and reviews of, Fund assistance into Article IV discussions.

Nothing is more important than having a clear picture of the direction in which the Fund has to go in a fast-changing global economic and financial environment. We therefore welcome the review related to the role of the Fund. As surveillance is at the heart of the Fund's mandate, I look forward to the planned discussions on the statistical policy of the Fund and related issues. I also support the focus on the strengthening of regional surveillance, as this could help enhance the whole overall effectiveness of Fund surveillance.

On the world economic outlook, we welcome the intention to focus on the respective roles of domestic policies and the external environment in relation to the conditions for sustained growth for the developing countries. We note with interest the comprehensive approach to be applied to the review of the issue of Fund quotas. In this regard, we welcome the proposed staff paper on the evolution of the relative share in quotas of developing countries, and look forward to proposals on how the long-run decline in the quota share of these countries could be indirectly addressed. The related paper on the use of more variables in quota formulas may prove useful in this regard. As quotas are not only the basis for determining a member's relative voting power and SDR allocations but are major factors in determining a member's access to Fund resources, it would be necessary for the new variables to adequately reflect developing countries' financing needs.

With regard to financing matters, we consider that all the topics planned for discussion are relevant and timely. However, we are somewhat skeptical about the prospects for reaching an early agreement on the Fund's financial structure and the adjustable norm. This should be the basis for a subsequent paper that would contain a draft amendment to the Articles of Agreement, and for a draft report of the Executive Board to the Board of Governors. The issue is complex and, therefore, appears to require in-depth consideration beyond what could be accomplished in one session. As to policies on the use of Fund resources, we look forward to the papers on financial assistance to members, on access policy, and on operations under the CCFF.

On the examination of the options for continued financing and adaptation of the ESAF, I would like to reiterate that we believe the issue should be given high priority and the necessary urgency accorded to work on the matter.

On other policy issues, we welcome the planned papers financing for developing countries and their debt situation. In this regard, like Mr. Bergo and others, we support the review of the situation regarding multilateral debt on a case-by-case basis. However, we should not lose sight of the need to address the problem on a broader basis, and therefore find solutions to the problems of heavily indebted low-income countries as a whole.

With regard to administrative and budgetary matters, the list of papers covers a broad range of important issues. The paper on the administrative and capital budget process, in particular, could provide the Executive Board with vital information that could be used to further in its review of the preparation of budgets as well as the monitoring of their implementation.

Mr. Saito made the following statement:

During the past 11 months we have experienced an unusually intense level of activities in the Fund, which I believe is unlikely to drop drastically in the near future. Thus, the period ahead will continue to be very demanding on the staff, management, and the Board.

In broad terms, I agree with the work program proposed by the Managing Director.

Regarding the provision of statistical data, I will touch on three points--the provision of data to the Fund, the publication of statistical data, and Fund efforts to establish standards for the provision of data to the public. With regard

to the first point, I share the Managing Director's and other speakers' view that the timely provision of data to the Fund by member countries is a prerequisite for successfully strengthening surveillance. Thus, I look forward to our discussion on this issue later this year.

I consider the proposed review, in the new context of globalized and integrated world markets, is the most fundamental issue for the future of this institution. To better serve its membership, the role of the Fund must be redefined to appropriately adapt to this new environment while continuing to fulfill its catalytic role.

On the issue of publication of statistical data, I believe that the regular and timely provision of data to the public by member countries would enhance the transparency of their economic policies and facilitate the work of the Fund. However, the decision on what data should be provided, as well as the timing of its publication, should remain the solely prerogative of the countries. In this connection, the role of the Fund should be to encourage members to publish key economic information on a timely basis.

Regarding the Fund's efforts to establish standards for the provision of data to the public, it would be beneficial for both the institution and the membership at large, if the Fund could first concentrate its efforts in standardizing the type, quality, and definition of statistical information used within the institution. For example, the Statistics Department, the area departments, and the technical departments maintain their own data bases, which in many cases are not consistent with each other. This generates duplication of efforts in the collection of information in the Fund and, equally important, in the member countries. I believe that efforts should be made to standardize these databases to use more efficiently both the Fund's and members' resources.

I share the view that prioritization, as the Managing Director has stated, is indispensable to better surveillance. The relevant question is, then, is how to determine the set of countries where economic disturbances and policies could have broader implications for other countries. In this connection, I look forward to the report on the conclusions reached at the department heads retreat.

Regarding the further follow-up to the Madrid Declaration, I consider that in order to save staff and Board time, we should avoid repeating the experience of the first follow-up report whereby we spent a considerable amount of resources in the elaboration of, and discussion on, brief country reports.

On capital markets and related issues I would like to stress that the increasingly globalized and integrated capital markets calls for a thorough examination of the issues and policies affecting the capital account. In this connection, I welcome the forthcoming paper and Board discussion on capital account liberalization, including a review on Fund's advice concerning capital account issues.

Similarly, we cannot ignore the increasing risks for macroeconomic instability stemming from a weak banking system. Thus, I welcome the paper on banking supervision and believe that the Fund, as a truly universal institution, has an important role to fulfill in fostering international cooperation, particularly in sharing information with members' supervisory and regulatory agencies and through technical assistance in this area.

I welcome the inclusion of studies on macroeconomic aspects of pension schemes, and on taxation and unemployment. Regarding the first study, I hope that it could include the recent experience of developing countries in introducing private pension plans. In particular, it would be interesting if the study includes an analysis of how these pension schemes are contributing to increase domestic savings. Similarly, regarding the second study, taxation and unemployment, I would be interested in the inclusion of developing countries' experiences.

On budgetary issues, I share Mr. Bergo and other speakers' comments in connection with strengthening the relation between the work program and the budgetary process.

Mr. Mirakhor made the following statement:

This statement is comprehensive, and all the items included in it are of unquestioned relevance. Nonetheless, I share other Directors' views on setting priorities in order to reach closure on some items on the list by the time of the Annual Meetings. In this regard, I found useful Mr. Waterman's idea of a timetable for the prioritized work program similar to the schedule attached to the Managing Director's statement on country items. We have an open mind on the items that may be included on a possible list of priorities, with the exception of the role of the Fund; here, we share the Managing Director's view that it should be given the highest priority. And here, I find the suggestions made by Mr. Waterman and Mr. Clark on ways of addressing the specific issues to be constructive.

Even though I remain flexible on the items to be placed on a possible list of priorities, I would like to say a word about

the importance of not postponing for too long consideration of the subject of staff compensation.

The determination of the staff's annual compensation, as most Directors know, is based on a procedure whose mechanism was agreed by the Executive Board. In my view, this invests the mechanism with the character of an implicit, if not explicit, contract. We waited until the last minute for the paper to come to the Board and then questioned the recommendation, which fully reflected that mechanism. It is important to settle this issue as soon as practicable. At least it would be helpful to avoid a continued paradox of the Board constantly praising the staff and yet, decoupling that praise with the discussion of the staff compensation. This is similar to the paradox of asking for stronger surveillance and at the same time suggesting biennial or bear-bone Article IV consultations.

Mrs. Cheong made the following statement:

I agree generally with the thrust of your statement on the work program, as well as proposals made by Directors on re-prioritization of some of the issues that we have discussed. Therefore, I have very few comments to make.

Specifically, on the issue of capital markets, I would like to join Mr. Mesaki in hoping that the paper would address the linkages between capital markets, the money market, and the foreign exchange markets, and especially the implications on monetary management. In this process, I also hope that the paper could look at some policy issues and probably some guiding principles for countries in taking measures to deepen and expand their capital market could also ensure the stabilization of their money and foreign exchange markets.

On the quota review, the members of our constituency are very anxious to look at these papers, especially on the issue of selective increases in quota, and we also hope to see ESAF-related issues resolved as soon as possible. Mr. Autheman has suggested that regional surveillance be included as a chapter in the world economic outlook. I wonder whether this is possible; the world economic outlook is a staff paper and will be published; perhaps this should be taken upon in the sessions on world economic and market developments instead.

As to the issue of growth and adjustment, if Mr. Waterman has no objection, perhaps the Philippines could be included in this study. That would provide a good comparison with Thailand, where adjustment under a Fund-supported program was relatively quick compared with that of the Philippines and could provide a useful lesson. I agree with most Directors that this subject

could be taken up after the Annual Meetings; in that event, the addition of one country would not impose any undue burden.

Mr. Mozhin said that he supported the suggested work program, including the way the priorities were set. However, as the agenda remained too heavy, he also supported all proposals aimed at further prioritization as well as general streamlining of the work program.

The Secretary observed that the key priorities that had been identified by Directors for the period up to the Annual Meetings were broadly in line with those set out in the work program statement. They included, first, the strengthening of Fund surveillance as mandated by the Interim Committee. In that context, Directors attached particular importance to following up on the provision of statistical data, and some considered that the envisaged work in that area was not ambitious enough. The staff would revised its efforts accordingly.

Other priority areas under surveillance related to the follow-up to the Madrid Declaration, the world economic outlook studies, and the more intensive work on capital markets, the Secretary continued. Directors had expressed strong support for, and attached urgency to, the half-yearly interim updates on capital market developments, further work on capital account liberalization, and studies on banking supervision having an appropriate macroeconomic focus. He had also taken special note of the study requested by Mr. Mesaki on the relation between capital market developments and exchange markets.

Work on the Fund's role and its resources would proceed as indicated, and would focus on the role of the Fund in the framework of the globalization of markets, the lessons to be drawn from the Mexican crisis, and the task of the Fund to assist its members better in coping with sudden market disturbances, including the Fund's catalytic role and its role as the lender of last resort, the Secretary stated. As to the timing of the staff's work, the Managing Director very much wished that the Board would have an opportunity to discuss the subject before the informal Board recess.

A number of speakers believed that the proposed work on quotas should proceed as envisaged, the Secretary recalled. Several had also broadly endorsed the timing and priority attached to work on borrowing by the Fund and on the role of the SDR; the staff would proceed as indicated in the Managing Director's statement. High priority was also given to further work on the ESAF and, in that context, to work on issues relating to gold in the Fund.

On individual country surveillance and the pace of Article IV consultations, many had commented that the conclusion of 128 consultations in 1994 was not good enough and that the Board should try to do better, the Secretary observed. To that end, at the retreat of department heads, serious consideration had been given to a number of suggestions for shortening papers, adjusting their format, and other forms of

experimentation--not only with staff papers but also with the size of staff missions. As the Managing Director had indicated, he would report to the Board on the conclusions to be drawn from that retreat. In any event, it was important that the staff have the necessary room for experimentation over a period of time so that the Board as well as the staff could draw lessons from that effort.

As a number of Directors attached somewhat less importance to the papers relating to regional surveillance, there did not appear to be an overriding need to bring them forward soon. He had also taken note of the importance and increased interest many Directors attached to the world economic and market developments sessions, as well as to the revised format of the country matters discussions.

On other matters, there had been little interest in early consideration of the paper on the legal aspects of the Fund's financial structure and the adjustable norm, the Secretary remarked. Indeed, a number of Directors had emphasized that, pending the emergence of a broader-based consensus on the critical issues involved, the matter should perhaps receive less priority in the period up to the Annual Meetings. On currency stabilization funds, views had differed regarding priority. However, as the staff paper was close to being finalized, it could be put forward for Directors' consideration, if they so wished, in July. On operations under the CCFF, he had noted the emphasis Directors had placed on the matter. As to work on the adjustment of international debt, the paper had been issued and could be brought to the Board for discussion later in June. The staff would proceed as envisaged with work on financing for developing countries and their debt situation.

As to trade and payments, the staff would also proceed as envisaged in the work program, the Secretary commented. Directors had agreed that work was needed on developing the Fund's future collaboration with the WTO.

Differing degrees of priority and interest had been expressed regarding the proposed work on growth and adjustment policies, the Secretary observed. Speakers had, however, attached little priority to the various studies in the area of fiscal policy. Directors had generally concurred with management's list of papers having less priority, although some speakers had suggested that the paper on the use and design of limits on external debt in Fund arrangements would be useful and could be taken up with the proposed papers on debt.

On administrative and related matters, a number of Directors had indicated their interest in providing the budget committee an opportunity to study more closely the relation between the work program exercise and the preparation of the Fund's budget, the Secretary remarked. The staff was currently preparing a paper on that issue. He had also taken note that a few Directors had reiterated their interest in establishing an evaluation unit, while some others had expressed interest in the approach outlined in

the Managing Director's statement for conducting evaluations in the period ahead as the need for them arose on individual subjects.

The staff proposed to promptly prepare a new tentative schedule in which, to the extent possible, dates would be given for the main policy papers set out in the work program and endorsed by Directors for consideration before the Annual Meetings, the Secretary stated. The schedule would become available in the coming few days.

Ms. Lissakers observed that the issue of an evaluation unit had been on the table for some time, and some Directors strongly wished to resolve the matter, based on a short paper laying out the various formats. A number of discussions had already been held in the Board on different types of evaluation, and she understood that various approaches to evaluation also had been a topic for discussion at the department heads' retreat. It would therefore be timely, and should be possible, to reach agreement on a evaluation procedure before the Annual Meetings.

The Chairman said that a paper could be prepared setting out all the forms of evaluation currently practiced in the Fund, so that Directors would be able to, together with management, to reach a conclusion on the best way to proceed. In addition to the experience with the Whittome report, Directors would soon have details on a multi-pronged approach to evaluation in the area of technical assistance and monetary affairs. Other promising experimental approaches were being explored that were less bureaucratic and expensive than establishing a separate unit, and it would be important for the Board to evaluate the experience with all those efforts before deciding how to proceed.

Mr. Evans recalled that the establishment of an evaluation unit had been delayed for nearly three years despite a decision in principle by the Board on the matter. The promise of more papers and delay was, in his view, unacceptable. He would like to see a paper on the matter brought to the Board before the informal recess.

Mr. Fernández observed that an evaluation unit had not been a priority issue for most speakers. He therefore considered that the comments by the Secretary and the Chairman on the matter fairly represented the views of Directors.

Mr. Waterman said that he looked forward to seeing a new and comprehensive tentative schedule that attached specific dates to the work priorities that had been established for the period up to the Annual Meetings. That approach was a very positive development.

As to the work on the Fund's role and resources, he had noted that the staff continued to link the two issues, Mr. Waterman commented. While he recognized that there was a clear and important linkage, he and a number of other Directors had stressed the importance of first considering the Fund's role before entering into a detailed debate on financing.

On evaluation, it was important to come to closure on the issue, Mr. Waterman considered. Clearly, Directors wanted some form of evaluation, and he believed that they were reasonably open regarding the particular approach. He himself would not necessarily favor a formal unit, but he did like the idea of the Board requesting the review of a particular matter by an outsider, perhaps once or twice a year. In any event, it was important that a mechanism be put in place; he did not think that Directors were looking for much more than that.

The Chairman remarked that Mr. Waterman's approach to evaluation was attractive and would have to be examined. As to follow-up work on the Board's discussion, he proposed that following the issuance of the revised tentative schedule, the Board should devote some time in the coming week to reviewing whether the timetable fully addressed the priorities that had been set out by Directors; in addition, he proposed that the Board review its progress on the work program in July, refocusing its work, as necessary, to meet the objectives it had set for itself in the period up to the Annual Meetings.

The Executive Directors accepted the Chairman's proposals, and concluded for the time being their consideration of the work program.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/95/53 (5/31/95) and EBM/95/54 (6/2/95).

3. SDR DEPARTMENT - DESIGNATION PLAN FOR JUNE-AUGUST 1995

The Executive Board approves the designation plan for the quarterly period beginning June 1, 1995, as set out in EBS/95/82 (5/19/95.

Decision No. 10990-(95/54) S, adopted
June 1, 1995

4. OPERATIONAL BUDGET PLAN FOR JUNE-AUGUST 1995

The Executive Board approves the list of members considered sufficiently strong as set out in EBS/95/83, page 2, footnote 2 and the operational budget for the quarterly period beginning June 1, 1995 as set out in EBS/95/83 (5/19/95).

Decision No. 10991-(95/54), adopted
June 1, 1995

5. TOGO - ENHANCED STRUCTURAL ADJUSTMENT FACILITY - REVIEW UNDER FIRST ANNUAL ARRANGEMENT

1. Togo has consulted with the Fund in accordance with paragraph 2(d) of the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Togo (EBS/94/169, Sup. 1, 9/20/94) and paragraph 5 of the letter of the Minister of Economy and Finance of Togo, dated August 12, 1994.

2. The letter of the Minister of Economy and Finance of Togo dated May 10, 1995 shall be attached to the first annual ESAF arrangement for Togo, and the letter with annexed memorandum of August 12, 1994 shall be read as supplemented by the letter dated May 10, 1995.

3. The Fund determines that the midterm review contemplated in paragraph 2(d) of the first annual ESAF arrangement for Togo has been completed and that, notwithstanding paragraph 2(b)(ii) and 2(c)(v) of the arrangement, Togo may request disbursement of the second loan under the arrangement. (EBS/95/77, Sup. 1, 5/26/95)

Decision No. 10992-(95/54), adopted
May 31, 1995

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/95/88 (5/31/95), and by an Assistant to Executive Director as set forth in EBAM/95/87 5/30/95) is approved.

APPROVAL: April 9, 1996

LEO VAN HOUTVEN
Secretary