August 9, 1996

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 95/29

The following corrections have been made in the final minutes of EBM/95/29 (3/27/95):

Page 7, last full para., lines 3 and 4: for "large savings in short-term capital flows,"
read "large and sudden short-term capital outflows,"

Page 8, first full para., last line: for "selective decline"
read "prolonged decline"

Corrected pages are attached.

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the staff view that the present special charge system has actually played a limited role in providing an incentive for members in terms of its deterrent effect.

In addition, I would also agree that the success of reducing arrears has been attributable thus far to the overall arrears-reducing strategy rather than the imposition of special charges. The removal of the special charge system should not be seen as a relaxation of the Fund's policy on arrears; instead, the successful solution of the arrears should rely on the continued strong adherence to the preventive and remedial aspects of the arrears strategy.

In short, I would favor a decision to totally abolish the special charges.

Mr. Daïri made the following statement:

Let me state at the outset that we found appropriate the initiative of revisiting the size of the Fund even though the Board reached the conclusion some months ago that the overall size of the institution was sufficient. This constitutes, in our view, another demonstration of the adaptability of the Fund to changing circumstances. Since this is the first opportunity for the Board to discuss these important issues, our positions are preliminary.

With regard to the adequacy of quotas, we found convincing many of the various arguments used by the staff to justify an early reconsideration of the size of the Fund at the same time Fund surveillance is being strengthened and program design sharpened. We are particularly concerned by the shrinking size of the Fund in relation to the world economy and by the decline in its liquidity ratio. However, I do not feel that global financing needs should be assessed in view of the large and volatile capital flows. Capital markets are not necessarily attracted by the long-term prospects of the country but mainly by short-term profit consideration. In fact, capital may flee a country not because of inadequate policies but because more profitable opportunities may have been found elsewhere. The effect of the increase in interest rates in the United States and elsewhere in early 1994 on emerging markets is a good illustration of this behavior.

Like Mr. Wijnholds, I have some doubt about the role the Fund can play in financing large capital outflows. In no way can the Fund reach a size that would enable it to face large and sudden short-term capital outflows, not to mention that this clearly is not its mandate and would put the Fund's financial position at risk.

I join Ms. Lissakers and other Directors in considering that prevention is more cost effective than financing. We should also pay more attention to signals given through development in long-term capital flows, particularly in equity investment. It is up to the countries themselves to adopt those policies that attract long-term capital and limit their dependency on short-term capital. Like Mr. Al-Jasser, I would not mind being called conservative.

With regard to the size of the quota increase, we have an open mind at this stage, although our sense tilts toward a sizable increase. On procedural matters, I support Mr. Mesaki's and other Directors' positions that common consideration of both equiproportional and selective increase, as well as their inclusion in a single ratification process, would be more appropriate. I also share the view expressed by Mr. Koissy and other Directors that we need to appropriately address the issue of the prolonged decline in developing countries' share.

With regard to borrowing by the Fund, our view is that the Fund should remain a quota-based institution and concentrate therefore on the work on quotas increase. However, we can support further study in this area in case the quota increase does not go through. We would like the staff to elaborate on the reference to Fund borrowing from private markets.

With regard to SDRs, our position has been always to support the Managing Director's general SDR allocation as first choice and the G-11 proposal as a compromise. A sizable SDR allocation would help strengthen the revenue cushion of countries in order for them to face short-term loss of reserves and short-term capital volatility. In the same context, we have an open mind on the adoption of some post-allocation mechanisms. We prefer, however, to reserve our decision until more operational details are provided. We also support the strengthening of the role of the SDR in the international monetary system.

With regard to gold, we reiterate our support for a study on the role of gold in Fund operations and various means of mobilizing the Fund's gold holdings.

Mr. Geethakrishnan made the following statement:

I am grateful to you for postponing the continuation of the consideration of this subject until today. This has enabled me to put my thoughts on paper over the weekend and thus be more precise in what I have to say.

Let me straightway state my conclusion and then the reasons for it. I am of the view that it is a mistake to discuss the various methods by which the Fund's resources could be augmented