Executive Board Attendance

M. Camdessus, Chairman
A.D. Ouattara, Deputy Managing Director
P.R. Narvekar, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A.A. Al-Tuwaijri	S.M. Al-Turki
M.-A. Autheman	A. Fayolle
T.A. Bernes	C.X. O'Loghlin
B. Esdar	W.-D. Donecker
H. Evans	J. Shields
	N. Coumbis
	J.C. Martinez Oliva, Temporary
D.Z. Guti	J.P. de Morais
	D. Gotz-Kozierkiewicz
	H. Kaufmann, Temporary
A. Kafka	J. John, Temporary
	J. Prader
K. Lissakers	B.S. Newman
H. Mesaki	H. Ono
	M. Daïri
	S. Rouai, Temporary
A.V. Mozhin	A. Vernikov
	V.Y. Verjbitski, Temporary
	S.S. Farid, Temporary
M.R. Sivaraman	H.B. Disanayaka
E. Srejber	B. Andersen
J.J. Toribio	J. Guzmán-Calafell
E.L. Waterman	J.-H. Kang
J. de Beaufort Wijnholds	
K. Yao	
Zamani A.G.	S. Joyosumarto
Zhang Z.	Han M.
A.G. Zoccali	

R.H. Munzberg, Associate Secretary
S. Bhatia, Assistant
D. de Vos, Assistant

Also Present
Administration Department: K.B. Dillon, Director; I.E. Prebensen. African Department: E.A. Calamitsis, Director; E.C. Harris. Central Asia Department: H. Neiss, Director; F.C. Adams, D.J. Goldsbrough, I. Otani. European I Department: J.R. Artus, Deputy Director. European II Department: G.C. Pastor. External Relations Department: M.E. Hansen, H.P. Puentes, S.A. Meehan. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: W.E. Holder, Deputy General Counsel; R.B. Leckow, H.V. Morais. Middle Eastern Department: V. Sundararajan, Deputy Director. Monetary and Exchange and Affairs Department: M. Guitián, Director. Policy Development and Review Department: T. Leddy, Deputy Director; A.G.G. Bennett, C. Bernard, M. Fisher, N.L. Happe, A.C. Kouwenaar, K.J. Langdon, R.H. Nord, S.M. Schadler, A.A. Selassie, T. van der Willigen. Research Department: M. Mussa, Economic Counsellor and Director; G. Hacche, A.J. Tweedie. Secretary's Department: W.S. Tseng, Deputy Secretary; K.S. Friedman, B.R. Hughes, A. Mountford, S.L. Yeager. Southeast Asia and Pacific Department: R. H. Brooks, D. Ostry, D.J. Robinson, N.E. Weerasinghe. Statistics Department: J.A McLenaghan, Director; C.S. Carlson, Deputy Director. Treasurer's Department: D. Williams, Treasurer; E. Decarli, L.U. Ecevit. Office of the Managing Director: S. Sugisaki, Special Advisor; J.A. Quick, Personal Assistant; E.A. Conrad, J. Prust, L. A. Wolfe. Office of Internal Audit and Inspection: E. Brau, Director; Advisors to Executive Directors: M. Askari-Rankouhi, T. Brizuela, J. A. Costa, P. M. Fremann, T.K. Gaspard, C.M. Gonzalez, A. Guennewich, K.M. Heinonen, G.M. Iradian, A.R. Ismael, M.F. Melhem, O. Sein, M. Sobel, L.B.J. van Geest. Assistants to Executive Directors: T. Berrihun, T. Blancher, J.G. Borpujari, J. Chelsky, M.A. Brooke, M.A. Cilento, S. Fukushima, J. Hamilius, O.A. Himani, E. Kouprianova, T.-M. Kudiwu, J.P. Leijdekker, T. Lwin, A.R. Palmason, H. Paris, O. Schmalzriedt, S. Simonsen, Song J., Y. Tahara, U.Y. Tilyayev, V. Trivedi, R.P. Watal, A.G. Yakub, M. Yiu.

August 7, 1997
Approval: 8/14/97

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 96/102

10:00 a.m., November 13, 1996

Contents

Decisions Taken Since Previous Board Meeting

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Vernikov as Alternate Executive Director for the Russian Federation.

2. REPORT BY MANAGING DIRECTOR

The Managing Director said that he had discussed the status of the program under the Stand-By Arrangement for Ukraine with President Kuchma on the telephone. A staff mission was in Ukraine at present to review the 1996 program and to begin work on a future program under an Extended Arrangement. The situation in Ukraine was difficult, with growing accumulation of arrears in several sectors, increases in the operating costs of coal mines, and problems in controlling the budget deficit for 1996 and subsequent years. The Fund, while appreciating the difficulties being faced, was also trying to ensure that the program stayed on course. Negotiations between the staff and the authorities on the program under the Extended Arrangement were coming to an end. He had emphasized several points in his conversation with the president, in particular that the budget deficit for 1996 and for subsequent years should be on a downward trend, pressures to accept new protectionist measures should be resisted and an open trade regime be maintained, and continued efforts were needed to ensure full pricing of communal services at 100 percent of their costs. On the last point, the mission would have to reach some agreement with the authorities, given the demand for low-cost heating during winter months. President Kuchma had given his commitment to undertake the necessary adjustment measures; nevertheless, the financing gap for the next year was large. President Kuchma had asked for the Fund's assistance in convincing the World Bank and the donor community to extend an appropriate level of external financing. He had told the president that the Fund would continue to play a catalytic role in mobilizing financing from the donor community and would explain to the international community the difficulties facing Ukraine and its need for external financing. But he had also stressed that Ukraine's ability to attract the necessary financing would depend on its own adjustment efforts.

3. REPORT BY MANAGING DIRECTOR

The Managing Director stated that he had traveled to Brunei Darussalam, Indonesia, Malaysia, and China. He wished to thank the authorities of the countries he had visited for their hospitality and Mr. Zamani, who had accompanied him on his visit to Brunei Darussalam and Indonesia.

His visit to Brunei Darussalam was an effort to establish contact with a new member, the Managing Director said. As Directors would recall, Brunei Darussalam had become the one hundred and eightieth member of the Fund when it had joined in October 1995. He had met with the Sultan, Haji Hassanal Bolkiah, and had had several meetings with senior officials, members of the business community, academics, and the press. He had been impressed by the Sultan's familiarity with a number of regional and international issues and his keen interest in the Fund, and had stressed Brunei Darussalam's need for policy advice and technical assistance from the Fund. The Sultan had also responded positively to his suggestion that Brunei Darussalam should support the low-income countries by actively participating in the Fund's initiatives. The staff would be discussing the details of Brunei Darussalam's contribution to the Enhanced Structural Adjustment Facility (ESAF) in the next few weeks. He had also discussed with the Sultan and senior government officials the need to diversify the economy, and to secure a larger role for the private sector while maintaining macroeconomic stability, mainly by curbing expenditures. The salaries in the public sector and government were high. However, it would not be easy for the country to make those efforts because it was so rich. The currency, which was pegged to the Singapore dollar, was strong. Indeed, if the country wished to compete in the world economy, the authorities would need to take measures to train the population to work in the high technology and telecommunications sectors.

The purpose of his visit to Indonesia had been twofold: to deliver the keynote address at a conference on macroeconomic issues facing ASEAN countries, organized jointly by Bank Indonesia and the Fund, and to have a number of bilateral meetings with the Indonesian authorities and the ministers and governors of central banks who had been invited to attend the conference, the Managing Director continued. In particular, he had had a useful meeting over dinner with the ministers and central bank governors of the region, and it was testimony to the economic strength of the ASEAN countries and their growing role in the global economy that they had discussed a range of global issues, including the role of the Fund, rather than focus only on the economic situation of individual countries. He was pleased to note that the ministers and governors had expressed both their strong support for the initiatives that the Fund was undertaking and their strong desire to participate in the initiatives, provided they were well represented in different international forums, including the Fund's Executive Board. There had also been discussions of the overall macroeconomic situation in the region, and he had been impressed by the confidence of the authorities that the macroeconomic challenges facing their countries would be addressed forcefully and that the growth momentum in the region would remain favorable over the next few years. The discussions had been frank, and they had also discussed a number of governance-related issues. There had been interesting comments about the role of the Fund in the region and how best it could help the authorities in their policy efforts. The conference itself had helped to raise the Fund's profile in the region.

He had also taken the opportunity to meet with the President of Indonesia, Mr. Suharto; the Coordinating Minister for Economic Affairs, Mr. Afiff; the Minister of Finance, Mr. Muhammad; the Governor of Bank Indonesia, Mr. Djiwandono; and Professor Widjojo, the Managing Director noted. He had had a long and stimulating exchange of views with President Suharto on a range of international issues, including the progress on the HIPC Initiative, for which he had taken a leadership role in his capacity as chairman of the Non-Aligned Movement. They had also discussed the state of Indonesia's economy. The president had emphasized his commitment to take the necessary steps to ensure lasting macroeconomic stability and further reduce poverty, including measures to strengthen the banking system and undertake additional structural reform. President Suharto had also indicated his intention to continue to deregulate the economy, including through further trade liberalization, which would also help to address governance and equity issues. That was one part of the world where the link between deregulation and equity was better perceived. He had stressed to President Suharto that, in view of his personal leadership in that region, he should take the lead in a regional effort to reduce military expenditures.

He had spent one day in Malaysia at the personal invitation of the Deputy Prime Minister of Malaysia, the slated successor to Prime Minister Mahathir, the Managing Director stated. They had exchanged views on the state of the Malaysian economy and on the future prospects for Malaysia and the region as a whole. He had been impressed by the deputy prime minister's confidence that Malaysia's current account deficit was now clearly on the downward path and that the key elements of remarkable growth in Malaysia continued to be in place. The deputy prime minister had asked him for his suggestions on how best to cooperate regionally on a variety of issues, such as reducing in military expenditures, fighting against corruption, tackling money laundering, and a number of trade-related matters—issues that were on the Fund's agenda and to which the deputy prime minister was personally committed.

During the weekend, he had paid a very brief visit to China, where he had had extensive and friendly discussions with the Executive Vice Premier, Mr. Zhou Rongji, Governor Dai, and Vice Governor Chen Yuan, the Managing Director continued. Mr. Zhang had also participated in those discussions, and he wished to thank him also for the arrangements he had made to make those meetings easy and possible. The macroeconomic situation in China was quite favorable. Further overheating had been avoided and inflation had come down significantly, while rapid growth and a strong external position were being maintained. The main concern for policymakers was the weak performance of the state economic enterprises, and the vice premier, who had been leading the fight for several years, was concerned about the situation and was impatient with the slow pace of progress. Although progress had been achieved, the authorities were aware that that would remain a difficult and drawn-out, but still indispensable, process for some time. They were also mindful of the urgency of working for the consolidation of the financial institutions.

The major part of their discussions dealt with the authorities' concern to ensure a successful transition of Hong Kong to Chinese sovereignty, the Managing Director observed. As a major financial center with great potential for further expansion, Hong Kong's smooth transition and development was of systemic importance. It was an issue on which the Fund must be indeed especially attentive for that reason. At the current stage, strong fundamentals and exemplary economic management, as well as the excellent framework of the basic law and of the British-China arrangement for the transition, presented favorable conditions for Hong Kong's smooth transition. Quite appropriately, the Chinese authorities had stressed their full commitment to the agreements providing for the full autonomy of Hong Kong as a financial center, and their determination to do everything to maintain market confidence. On that, they knew and recognized that matters were not exclusively, but basically, in their own hands. He agreed with the vice premier that the situation should be closely watched by China, Hong Kong, Britain, and the Fund. He had assured him that the Fund would play a supportive role during that crucial period and beyond. That was greatly appreciated by the authorities. They had also discussed the possibilities for broader regional, financial, and economic cooperation in the future. The Chinese authorities would find such a development desirable and would view with sympathy the Fund's playing a constructive role in that process.

Finally, he had once again discussed with the vice premier the case of Mr. Hong, an issue that was unfortunately still with them after almost a year, the Managing Director stated. He had been encouraged by the continued spirit of cooperation on the part of the vice premier to explore ways for bringing that difficult problem to a final resolution that was satisfactory to both China and the Fund.

4. WORK PROGRAM

The Executive Directors considered the following statement by the Managing Director on the work program for the period up to the spring 1997 ministerial meetings:

> The following statement on the Work Program of the Executive Board reflects the priorities identified by members during the recent meetings of the Interim and Development Committees and during the Annual Meetings. I have also taken note of the suggestions made by Executive Directors during our informal luncheon on October 24. There is a heavy agenda ahead and I have given careful attention to prioritization and selectivity in preparing this Work Program. Directors will see that some of the analytical issues you suggested will be made part of the staff papers that are under preparation. I have asked the staff to pursue other issues as staff resources permit. Some of these staff studies could be brought for discussion in Board seminars; obviously this can only be accomplished over time.
>
> Directors will note that the Work Program focuses on the tasks that the Governors asked us to complete or make further progress on by the time of the spring 1997 Interim Committee meeting. In particular, we must give priority to:
>
> - effective surveillance of members' policies, which is an integral part of the new Interim Committee Declaration on Partnership for Sustainable Global Growth;
> - continuing with the analysis of capital flows and their implications for the work of the Fund, including possible changes in the Fund's Articles;
> - strengthening surveillance over banking systems;
> - furthering the work on the special data dissemination standard and putting in place the general standard for data dissemination;
> - proceeding quickly with the implementation of the HIPC Initiative and the continuation of the ESAF;
> - finalizing work on the proposed amendment of the Articles in connection with the equity allocation of SDRs;
> - making further progress and completing as soon as possible work on the Eleventh General Review of Quotas; and
> - completing promptly work on the New Arrangements to Borrow.
>
> This statement covers the Board's Work Program in some detail for the period up to the spring ministerial meetings, and provides a more general indication of the work to be undertaken in the period between the spring

meetings and the 1997 Annual Meetings. I propose that we exchange views on the Work Program on November 13, 1996.

I. SURVEILLANCE

World Economic Outlook

The spring 1997 World Economic Outlook paper will be discussed by the Board on April 2 and 4, 1997. It will examine progress in a number of the areas to which particular importance is attached in the new Interim Committee Declaration and consider some of the challenges associated with the new global environment of more closely integrated markets. For the industrial countries, the paper will review the progress in tackling fiscal imbalances and unemployment, the quality and sustainability of fiscal adjustment, the effects on employment and wages of trade with emerging market economies, the constraints imposed on policies by international integration, and progress in Europe toward EMU. For the developing countries, the paper will discuss their increasing integration through trade and capital flows, and examine the contrast in growth performance between those emerging market economies where per capita incomes have been converging toward industrial country levels and those economies that have seemed to face the risk of being marginalized from the globalization process with a view to drawing policy lessons. For the countries in transition, the paper will examine the difficulties that are emerging in their structural transformation and reintegration into the global economy, and the policies that are needed to overcome these difficulties.

World Economic and Market Developments

The periodic WEMD sessions will continue to focus on the key developments in industrial, developing, and transition economies, as well as in global financial and foreign exchange markets. Special topics related to global financial market developments and policy concerns will be analyzed in some of these sessions. The next two WEMD sessions are tentatively scheduled for November 20, 1996 and January 13, 1997, respectively, with subsequent sessions to be held at approximately six-weekly intervals in the period up to the spring meetings.

Surveillance Reviews

The biennial review of the implementation of the Fund's surveillance over members' exchange rate policies and the 1997 Surveillance Decision will be conducted by the Board in February 1997. For that review, the staff will prepare a policy paper and background papers. The papers will review the evolution of Fund surveillance against the background of the steps taken to strengthen surveillance in 1995–96 in the aftermath of the financial turmoil in 1994/95 and the report to the Interim Committee in April 1995, and the new demands placed on surveillance by financial sector problems and developments in individual countries and by the globalization of financial markets and the sharp increase in cross-border capital flows. Looking at the challenges for surveillance in the period ahead, the papers will discuss issues of transparency (including the possible release of Article IV materials), the likely increase in regional surveillance issues, and ways to strengthen Fund surveillance in the area of soundness of banking systems in response to the new Interim Committee Declaration. The Board discussion will provide the guidance for preparation of the Managing Director's report to the Interim Committee on the review of surveillance in April 1997.

Directors may recall that it has been agreed that the next six-monthly review of policies in the context of surveillance will take place in September 1997.

We will continue to hold informal country matters discussions on a monthly basis.

Capital Account Issues, International Capital Markets, and Capital Flows to Developing Countries

In response to the Interim Committee's request to the Board to report on its work on issues related to capital flows at the Committee's spring meeting, there will be a set of papers on capital account convertibility and the role of the Fund: review of experience and consideration of a possible draft amendment of the Articles to give the Fund broader jurisdiction over capital movements for Board consideration in early 1997. There will be a main paper examining the issues associated with the Fund's work on promoting capital account liberalization, intensifying the Fund's involvement in that area, and the considerations relating to a possible amendment of the Fund's Articles. Three supporting background papers are planned: one reviewing experience with capital account liberalization and strengthened procedures adopted by the Fund; another on bilateral, regional, and multilateral agreements and initiatives in capital account liberalization; and a third paper on capital transfers: legal aspects of the Fund's jurisdiction and financing under the Articles.

The staff's statement (EBD/96/113) for the September 1996 meeting of the Negotiating Group for the Multilateral Agreement on Investment (MAI) was circulated to the Board on August 30, 1996. One Executive Director suggested that the statement be discussed by the Board at some stage. In addition, the staff will issue in mid-November a short note on the status of the MAI negotiations, as they relate to the relationship between the MAI and the Fund, for discussion in early December 1996.

A short paper on recent developments in commercial bank and official bilateral debt restructuring will be circulated for the Board's information in March 1997. A review of official financing for developing countries and their debt situation will be prepared for Board discussion in September 1997.

The 1997 international capital markets report, to be discussed in the second half of July 1997, will include a comprehensive survey of recent developments in major international and emerging capital markets. It will also examine in depth a number of structural issues in both the industrial and emerging market countries, including the implications of EMU for international capital markets, and sovereign external asset and liability management.

Banking Supervision and Monetary Issues

The soundness of banking systems is emphasized in the new Interim Committee Declaration. The staff will prepare a paper on issues relating to international banking guidelines for Board consideration in March 1997. The paper will focus on the role of such guidelines in strengthening Fund surveillance with a view to fostering banking system soundness and stability. The paper will take into account the cooperation between the Fund and the Basle Committee on Banking Supervision, the World Bank, and other bodies in order to avoid duplication. In addition, the staff will prepare a paper on systemic bank restructuring for consideration in January 1997, covering the possible role of governments in assisting banks to effect restructuring, the appropriate supporting fiscal stance and tax issues, as well as the role of the central bank in restructuring, and the implications of restructuring for the monetary transmission mechanism and the conduct of monetary policy. The paper will also analyze the implications of bank restructuring in Fund-supported programs.

In response to a request from the Board, a paper on currency board arrangements: issues, experiences, and implications for Fund programs will be prepared for Board consideration in a seminar in January 1997. The paper will examine the performance, operations, and economic impact of currency board arrangements, including those in countries with Fund- supported programs. In particular, the paper will discuss the trade-off between policy flexibility and credibility in the arrangements, including their suitability as transitional arrangements, exit strategies, and implications for the choice of program targets.

Fiscal and Trade Issues

The staff will prepare two papers on fiscal rules and transparency—an important policy aspect highlighted by the new Interim Committee Declaration. The first, on transparency of government operations, will review institutional arrangements and accounting and forecasting practices in member countries, and will explore ways of enhancing their transparency, including by taking account of off-budget and quasi-fiscal activities and unfunded liabilities, so as to provide a more comprehensive and accurate basis for assessing the stance and sustainability of fiscal policies. The second paper will analyze various types of fiscal rules in several countries and regions in order to evaluate their usefulness as an instrument of fiscal discipline. Both papers will conclude with a discussion of the implications for Fund surveillance and program design. The papers are tentatively scheduled for Board discussion in January 1997.

A report on the outcome of the WTO First Ministerial Conference will be prepared for the information of the Board in February 1997. It would be useful to note at this stage that a Comprehensive Trade Paper or series of papers will be prepared for Board discussion after the 1997 Annual Meetings. The paper(s) will cover a range of issues, including recent trade policy developments, the implementation of the Uruguay Round Agreements, the role of the Fund in the trade area (including collaboration with the WTO), the prospective evolution of multilateral trade liberalization, and special topics such as the impact of the Uruguay Round on developing countries.

Governance

The new Interim Committee Declaration emphasizes the importance of promoting good governance in all its aspects. A paper on the role of the Fund and issues of governance will be available for Board consideration in December 1996. As outlined in my last Work Program Statement, the paper will examine considerations relating to the Fund's approach to governance issues, including a review of the Fund's experience in this area as well as policies followed in some other multilateral institutions. A companion paper will cover the legal aspects of governance under the Fund's Articles.

Data Issues

With the Special Data Dissemination Standard now implemented and the Dissemination Standards Bulletin Board now open on the Internet, the focus of work on data dissemination will turn to the general standard for the bulk of the Fund's membership. To meet the Interim Committee's request to put in place the general standard before the spring 1997 meeting of the Committee, the staff will prepare a paper on the General Data Dissemination Standard—Initial Considerations for Board discussion in January/February 1997; a further paper may be needed in March. The Board discussions will provide guidance for the Managing Director's Report to the Interim Committee on Data Dissemination Standards in mid-April 1997, which will also report on the progress with efforts to establish hyperlinks from the Fund's Dissemination Standards Bulletin Board to country data sites. There will be a further paper on data dissemination standards—progress report and Managing Director's report to the Interim Committee for Board consideration in September 1997, which will provide an update on the experience with the Dissemination Standards Bulletin Board, the Special Data Dissemination Standard, and the General Data Dissemination Standard. The biennial review of statistical policy will be considered by the Board in October 1997.

Regional Surveillance

The staff is organizing a conference on EMU and the International Monetary System to be held March 17–18, 1997. The conference will include participation by noted academics, senior officials, members of the Executive Board, and Fund staff. A tentative conference program will be circulated for the information of the Board. A brief summary of the proceedings and recommendations will be issued after the conference for Board discussion on April 9, 1997. The staff will also prepare a paper on progress toward EMU for Board consideration also on April 9, 1997. The paper will cover issues related to the transition to stage 3 of EMU, including efforts of the EU economies to satisfy the requirements for participation in stage 3, and the development of the policy framework for stage 3. The paper will also include a preliminary exploration of the legal and operational issues related to Fund/EMU relations.

Based on papers prepared by outside experts, a review of the experience with Fund-supported programs in Central and Eastern Europe and some FSU states, which will focus on selected areas of policy advice, will be brought to the Board's agenda in March 1997.

Country-Related Work Load—Article IV Consultations, Use of Fund Resources, Program Reviews

The Board has recently reaffirmed the importance it attached to discussing Article IV reports as a critical element of the Article IV consultation process. Country-related work is forecast to remain heavy in the 12 months through October 1997. It is projected that the Board will be asked to conclude 175 Article IV consultations in the next 12-month period, although, as a practical matter, it can be expected that the number of consultations that will actually be concluded will fall short of projections, as in past years; in the period November 1995–October 1996, the Board held 135 consultations. The tentative timing of Board consideration of Article IV consultations and of reviews under existing arrangements is shown in the Attachment, Tables 1 and 2. In addition, it is projected that some 47 requests for new arrangements will be brought for the Board's consideration in the 12 months through October 1997.

Indications of the country-related work load in the period of the proposed Work Program are summarized in Annex I.

The staff will circulate a brief paper on lapse of time consideration of reviews under arrangements for Board consideration in November 1996.

II. FUND'S FINANCIAL RESOURCES

Quotas

The Interim Committee welcomed the progress made by the Board in its work on the Eleventh General Review of Quotas and, in view of the Fund's prospective liquidity position and other factors, requested the Board to do its utmost to reach a conclusion as soon as possible. The staff will prepare two papers—revised quota calculations, and issues relating to the size and distribution of the quota increase—which build on progress already made by the Board and could be considered together by the Committee of the Whole in mid-December 1996. There may be a need for follow up work in the period leading up to the spring ministerial meetings. Should Directors wish to revisit the topic of basic votes, the staff could prepare a paper containing further analysis.

A paper on the extension of the periods for consent to, and payment of, quota increases under the Ninth General Review will be issued in December for lapse of time consideration by the Board.

Borrowing

On the New Arrangements to Borrow, a paper presenting the terms of the arrangements and the proposed decisions will be issued for Board consideration as soon as possible once agreement has been finalized.

Fund's Liquidity Position and Financing Needs

Papers reviewing the Fund's liquidity position and financing needs will be prepared for Board consideration in late March 1997 and in mid-September ahead of the ministerial meetings. As requested by the Board, the staff will prepare a paper reviewing the methodology used to project the Fund's liquidity position, including in particular the methods used to project the use of Fund resources, for Board consideration in late December 1996 or early January 1997.

Operational Budget and Designation Plan

Papers presenting the quarterly operational budgets and designation plans will be issued in November 1996 and in February, May, and August 1997. A paper reviewing the guidelines for the allocation of currencies under the operational budget will be issued to the Board before the end of 1996.

Fund's Income Position

The midyear review of the Fund's income position for FY 1997 will be held before December 15, 1996. In April 1997, the Board will consider a staff paper on the Fund's income position for FY 1997 and income target and the rate of charge for FY 1998, including the review of the system of special charges, as well as a paper on the review of precautionary balances and the implementation of burden sharing. A paper on the actual outcome of the Fund's income in FY 1997 will be issued in June 1997, after completion of the audit by the External Audit Committee, for lapse of time consideration of a decision to place FY 1997 income to reserves.

Overdue Financial Obligations

The annual review of the strengthened cooperative strategy on overdue financial obligations to the Fund will be brought to the Board's agenda in early March 1997. The six-monthly report on overdue financial obligations will be issued for the Board's information in September 1997.

In the context of certain members in arrears to the Fund, Directors requested a study of mechanisms under which the proceeds of a reserve tranche purchase could be retained in a special account in order to meet SDR charges and assessments. Accordingly, a paper on reserve tranche purchases to settle charges and assessments in the SDR Department will be circulated for information in early 1997. In response to questions raised at the Board, the staff will prepare a paper on legal aspects of compulsory withdrawal from the Fund. This could be considered by the Board at the same time as the review of the arrears strategy.

III. SDR ISSUES

The work on SDR issues in the period up to the spring ministerial meetings would focus on the approach to implementing the equity allocation endorsed by the Interim Committee, namely, through an amendment of the Articles providing for a one-time allocation of SDRs, based on a common benchmark ratio of cumulative allocations to present quotas. As the Committee requested the Board to finalize its work on the amendment by the time of the spring meetings, I would suggest that the Board consider a draft of the Fourth Amendment of the Articles and commentary, followed by consideration of a draft Report of the Executive Board to the Board of Governors. Discussion on the first paper, on the draft amendment, could take place in mid-December 1996. Discussion on the second report could take place in early 1997.

IV. POLICIES ON USE OF FUND RESOURCES

ESAF and the HIPC Initiative

The Interim and Development Committees requested the Fund and the World Bank to proceed quickly with the implementation of the HIPC Initiative. Over the coming several months, the Board will consider a number of country papers where the country has established a track record of adjustment and reform sufficient to have reached the decision point under the Initiative. These papers will include debt sustainability analyses, on the basis of which the country's eligibility for the Initiative will be assessed. For countries deemed eligible, preliminary HIPC documents will be prepared jointly with the Bank, discussing: eligibility; debt sustainability targets; vulnerability factors; and the action required by creditors. These documents would be revised in the light of the Boards' reactions and those of other involved creditors to form the basis for agreed action under the Initiative. A progress report to the Interim and Development Committees on the HIPC Initiative will be prepared jointly with the Bank staff for Board consideration in March 1997, with a further progress report planned for the Board discussion before the fall ministerial meetings.

In addition, papers on operational issues associated with the financing for the ESAF and the HIPC Initiative will be brought to the Board. In December 1996 or January 1997 the Board will consider a series of papers dealing with modalities for special ESAF operations in the Special Disbursement Account, and an amendment of the ESAF Trust Instrument to allow, inter alia, for the early transfer of resources from the Reserve Account to the SDA. There will be a report on progress on financing the continued ESAF, including through bilateral contributions. In addition, there will be a paper on the use of the SCA-2 to make these resources available for the continuation of the ESAF and the HIPC Initiative.

As in the past, an update on the status of ESAF operations will be provided to Board (for consideration on a lapse-of-time basis in December 1996 and June 1997), including on the adequacy of the resources of the ESAF Trust Reserve Account.

A paper on the review of experience under ESAF-supported programs will be available for Board discussion in May 1997. The review will examine economic policies and developments in countries that had ESAF arrangements during 1987–95, focusing on: factors affecting growth performance and progress toward external viability; the causes of program interruptions (which policies went off track, the extent to which exogenous shocks were a factor, and whether programs could be designed differently to reduce the incidence of interruptions); and lessons for the design and implementation of structural reforms in selected areas, including the design and pace of reform implementation, fiscal revenues, public enterprise reform, and banking systems. Later in the year, there will be an external evaluation that addresses issues of ownership, social policies and the composition of government spending during ESAF arrangements, and developments in the external positions of countries with ESAF arrangements; the proposed terms of reference for that evaluation (EBAP/96/103) were considered by the Board on October 30, 1996.

Use of Fund Resources—Other Issues

A short note on prior actions in Fund-supported programs (EBS/96/164) was circulated to the Board for information on October 22, 1996.

A paper on the pace of trade liberalization in program design will be issued for Board discussion following the spring 1997 meeting of the Interim Committee.

A paper on charges on large-scale use of Fund resources (EBS/96/57) has been circulated to the Board and it is proposed for discussion before December 15, 1996, on the same day as the discussion on the midyear review of the Fund's income position in FY1997. A paper on safeguards for the Fund in cases of large-scale access will also be circulated for discussion on the same day. The paper will describe possible safeguards the Fund might seek in circumstances in which members have unusually high access to Fund resources, including, inter alia, procedures for post-program monitoring and a revision of the early repurchase policy.

A paper on review of the Fund's policy on external payments arrears and the use of Fund resources is planned for Board discussion in January 1997. The paper will provide a review of the Fund's policies on financing assurances, and will be a first step in responding to the G-10's request that the Fund consider broadening the scope of the policy of lending into arrears to encompass arrears on sovereign bonds.

As requested by the Board, a paper reviewing the policy on limits on external debt, discussing the specification of external debt limits under Fund arrangements, will be prepared for Board discussion in early February 1997.

The annual review of access policy and limits under the credit tranches and the Extended Fund Facility has been circulated for Board discussion on November 13, 1996.

V. ADMINISTRATIVE and BUDGETARY MATTERS

The budgetary outlook in the medium term, together with activities and resources utilization in the period FY 1998-FY 2000, and the FY 1997 midyear review of the Administrative and Capital Budgets, will be considered by the Board in mid-January 1997. In mid-April, the Board will consider the Administrative and Capital Budgets for FY 1998 and papers on the annual review of staff compensation and the recruitment and retention experience in CY 1996. The medium-term outlook and the FY 1998 budget proposals will be considered by the Committee on the Budget prior to the respective Board discussions. A staff paper on framework for possible extension of dollar budgeting to selected personnel areas was circulated for consideration by the Budget Committee on November 7, 1996.

The annual paper on actual expenses under the FY 1997 Administrative and Capital Budgets will be circulated for the Board's information in July 1997.

Several additional administrative papers will be prepared. A strategic discussion paper on benefits will be considered by the Committee on Administrative Policies in February 1997. A paper on recruitment, nationality distribution, and staff diversity will be prepared for an informal Board discussion in December 1996. The Board will consider a paper on the review of categories of employment in the Fund in June 1997.

A paper on review of individual study programs will be considered by the Board on a lapse of time basis in November 1996. A paper on smoking policy will be circulated for lapse of time consideration in late November 1996.

Staff papers on Part II and Part III of the Phase III Fitout Budget will be prepared for Board consideration in December 1996 and April 1997, respectively. Part II concerns capital expenditure made in line with progress on the base building work. Part III concerns the subsequent construction of offices and associated work in phases I, II, and III.

VI. OTHER MATTERS

The outline of the 1997 Annual Report of the Executive Directors will be considered by the Board in early March 1997. The 1997 Annual Report itself will be considered by the Committee of the Whole starting in mid-June 1997.

An update on recent developments concerning the Joint Vienna Institute will be circulated for the Board's information in mid-December 1996.

The staff is conducting a review of the effectiveness of the Fund's resident representative program, to be concluded in mid-1997, when the report will be made available to the Board.

A paper on Japan—Administered Account for Technical Assistance—Amendment will be circulated in the near future.

Mr. Bernes made the following statement:

The Managing Director has articulated a comprehensive, ambitious, and highly-relevant work program for the coming months and, I must confess, it is difficult to argue that any particular item does not warrant the attention of staff and careful consideration by the Executive Board. Clearly, if we are to do proper service to the proposed range of issues, the Board will need to use its time efficiently. For my part, and given the opportunity cost in terms of time available for substantive discussion, I will endeavor to contain the length and quantity of my interventions and, to the extent possible, circulate statements in advance of Board discussions.

In terms of the specifics of the proposed work plan, let me make a few comments and identify a few issues which I believe should receive particular attention.

Without question, surveillance should continue to receive the bulk of the Executive Board's attention. I place particular emphasis on the biennial review of the implementation of the Fund's surveillance over members' exchange policies and the 1997 Surveillance decision. I look forward to reviewing staff papers on the evolution of Fund surveillance in the aftermath of the financial turmoil of 1994/95 and in light of the increasing importance of cross-border capital flows. In addition to describing actions taken to date, this work should pay particular attention to lessons learned and the direction of future efforts. I therefore support the Managing Director's reference to addressing ways to strengthen surveillance in the area of sound banking systems. I also welcome the proposed work on international banking guidelines and am particularly encouraged by the intention to take into account work already being undertaken at the World Bank and the Basle Committee on Banking Supervision. With so much on our plates, we should, to the extent possible, build on the work of others to avoid unnecessary duplication of effort.

I would like to express my appreciation to the Managing Director for his positive response to calls for further work on currency board arrangements. I concur with the areas identified for study which include: trade-offs between policy flexibility and credibility in the arrangements, their suitability as transitional arrangements, and exit strategies. I also welcome our returning to the question of capital account convertibility and the appropriate role of the Fund. I look forward to further analysis by the staff and hope we will have ample time to consider and digest their findings before we consider a proposed amendment to the Articles to explicitly alter the Fund's mandate in this area.

On the implications of EMU for international financial markets, I acknowledge the intention to address this issue in the context of the 1997 international capital markets report as well as at the March 1997 seminar on EMU. However, I would emphasize the importance of this issue to the Fund's broader membership and encourage management to ensure that it is accorded adequate attention.

I am pleased with the profile the Managing Director has given to work on Governance, an issue which, I would argue, is highly relevant to so much of the Fund's work and mandate. Given our new "Partnership for Sustainable Global Growth" which explicitly calls for the promotion of "good governance in all its aspects," and the strong statements made by the Managing Director at this year's Annual Meetings on the importance of addressing corruption, it is critical that we arrive at a workable consensus on the parameters of the Fund's mandate in this area. In addition to proposed papers on the role of the Fund and issues of governance and the legal aspects of governance under the Fund's articles, I also welcome the intention to prepare papers on fiscal rules and the transparency of government operations.

With respect to work on the Fund's financial resources, I am pleased to see that we are moving forward with work on the Eleventh Review of Quotas. In addition to the consideration of revised quota calculations and issues relating to the size and distribution of the quota increase, I would lend my strong support to a revisiting of the topic of basic votes. In particular, I would encourage staff to undertake further work in assessing the need for an increase in basic votes. While this is clearly of direct interest to the Fund's smaller members, the benefit to the broader membership of strengthening the ties between the Fund and many of these particular vulnerable economies should not be underestimated.

I hope that we can compete our work on the New Arrangements to Borrow at the earliest opportunity and I welcome the Fund's readiness to implement the arrangement once agreement has been reached.

In terms of issues related to the use of Fund resources, I welcome efforts to ensure a speedy implementation of the HIPC Debt Initiative and look forward to reviewing the country papers the Managing Director has indicated will be available over the coming several months. In this regard, I would encourage the staff to ensure that other major creditors, both bilateral and multilateral, are consulted early on in the preparation of proposals for eligibility for exceptional assistance under the Initiative. This must involve, at the very least, co-ordination among creditors on the timing of discussions on the details of individual operations to ensure that, when this Board reviews preliminary eligibility proposals, we do so with some preliminary sense of the consensus among other creditors on the need for, and timing of, a particular operation.

I note the intention to bring forward a series of papers on financing the continuation of ESAF and the Fund's participation in the HIPC Debt Initiative. I welcome the pace at which this work is being brought forward and hope we will hear shortly from the Managing Director on the outcome of his solicitation of bilateral contributions to ESAF. Once potential donors have been canvassed, we will need to return, at the earliest opportunity, to the question of optimizing the Fund's resources so as to avoid excessive resort to early use of Reserve Account resources and the consequent reduction in the size of a self-sustained ESAF. I would suggest that we plan to be in a position to move forward on this issue by the time of the Spring 1997 meetings.

Having identified areas which are of particular importance to this Constituency, and given the demanding workload for both the Board and Fund staff which this work plan represents, we should give some consideration to areas in which we can scale back our work. We will also need to consider the potential financial implications of undertaking more work in areas of increasing interest—banking, for example. Unless carefully considered and managed, this has the potential to use up significant internal resources. In light of these considerations, I would suggest that proposed work on trade could be curtailed. While the development of a close working relationship with the WTO is important, I do not see the need for a lot of analytical work in this area.

More broadly, with respect to administrative and budgetary matters, I look forward to discussions in this area and the chance to review and re-evaluate the allocation of administrative resources within the Fund. I have no doubt that this will identify areas of increasing financial pressure in the budget. We would take care that the process also identifies aspects of the Fund's activities which may provide scope for some offsetting reductions in costs.

Mrs. Gotz-Kozierkiewicz made the following statement:

The work program presented by the Managing Director is very well focused. Although the list of issues the Fund is asked to address is being lengthened continuously, the work program provides a clear prioritization of the main questions to be dealt with in the immediate future. We fully agree with the priorities stated in it and would like to emphasize the following points:

The new Interim Committee Declaration on Partnership for Sustainable Global Growth contains several new elements which will help to increase the effectiveness of Fund surveillance, among them the soundness of banking systems. As we share the emphasis put on this issue, we warmly welcome that the work program for the next months includes discussions on this topic on at least three occasions.

A second crucial policy element in the new Interim Committee Declaration is the strengthened focus on achieving balanced budgets. We thus welcome the planned papers on fiscal rules and transparency. Fund surveillance can certainly be improved if members provide a more transparent fiscal framework, which for example would take into account issues such as off-budget and quasi-fiscal activities. An early discussion of these papers should allow implications for surveillance to be translated rapidly into the operational activities of the Fund.

Also touching upon transparency in a wider context is the explicit accent the new Declaration places on the promotion of good governance. We look forward to the staff papers on this issue, especially because defining the role of the Fund and its approach in this area will involve some delicate balancing between maintaining the rights of sovereign nations and fulfilling the aims stated in the new Declaration.

We agree that the Fund should give high priority to the implementation of the HIPC initiative and thus devote substantial staff resources to it. The discussions on the first papers dealing with individual country cases will give us a better understanding of the operational side of the initiative; however, it is also important to move ahead in defining the general modalities for these operations and preparing the groundwork on the financing side. We also particularly look forward to the progress report on financing the continued ESAF.

With regards to completing the Eleventh Review on Quotas, we reaffirm our interest in completing the work as soon as possible. In this respect, we suggest to postpone a discussion on basic voting rights until this review has been concluded.

Finally, and notwithstanding the already heavy work load of the Board, we suggest to add a further topic to our Work Program. In our view, a review of the Fund`s policy on program design would be very fruitful: directors will certainly remember that we raised earlier this year the question whether it is more appropriate that the Fund requests a very tough program with a higher risk of program deviations implied, or that it asks for a more "realistic" program with fewer risks involved.

Mr. Al-Tuwaijri made the following statement:

I broadly agree with the Managing Director's well-prioritized statement on the Work Program. The agenda before us is quite extensive, and we should seize every opportunity to further streamline our work.

On surveillance, I find the planned focus of the Spring World Economic Outlook to be appropriate. Greater integration of the global economy is at the heart of this institution's mandate. Developments that can be foreseen for the next few years, as well as the evolving focus of our work, make this topic timely. In addition, the section on industrial countries will appropriately cover progress in tackling fiscal imbalances and unemployment.

The periodic WEMD sessions have been most helpful. The staff's views on developments in emerging markets and transition economies provide indispensable and timely insights.

The biennial review of surveillance is the appropriate occasion to examine experience from recent initiatives, and to consider possible means for strengthening surveillance as necessary. This being said, I am somewhat perplexed by the planned discussion on the possible release of Article IV materials. This Board has discussed this issue on several occasions over the past two years. While some Directors were receptive to such proposals, an unequivocal majority found the proposals to entail more risks than benefits. Unless there is evidence of a major change in Directors' views, I see no urgency to revisit this contentious issue.

The planned papers on capital account convertibility and the role of the Fund should provide an extensive review of experience since the last time this issue was discussed. I would emphasize that all relevant aspects and strategies need to be considered. The discussion should not focus solely on the possible extension of the Fund's jurisdiction.

The proposed topics for the 1997 international capital markets report are particularly appropriate. In this connection, I also welcome the forthcoming conference on the EMU and the International Monetary System, and the follow-up discussion by the Board. The implications of the EMU for the international capital markets and nonEU countries should receive due attention in the Fund's work over the next two years.

With regard to banking supervision and monetary issues, I agree with the Managing Director's proposal that such papers should avoid duplicating the work of other bodies. This also applies to the planned paper on systemic bank restructuring, where the World Bank has significant expertise.

I look forward to the paper on currency Board arrangements. Indeed, recent developments in countries with Fund programs makes this discussion very timely.

With an extensive agenda in other areas, it will be worthwhile to limit discussions of fiscal and trade issues to high priority matters. In this regard, I wonder whether the paper on various types of fiscal rules could not be postponed. Furthermore, given our relatively recent discussions of certain quasi-fiscal operations, I also feel that the paper on transparency of government operations need not be very extensive.

Discussions on trade issues could be somewhat narrower. Specifically, I would suggest that the primary focus be on the role of the Fund.

Turning to the issue of governance, this subject received much attention during the last Interim Committee Meeting. Nevertheless, we must be careful when treading in areas that are well-beyond the scope of our expertise and could adversely affect the cooperative nature of our relations with members.

On the Fund's financial resources, I welcome the progress made in establishing the New Arrangements to borrow and look forward to the paper on the terms of these arrangements. I also look forward to the paper on methodology used to project the Fund's liquidity position. With regard to the Eleventh General Review of Quotas, I note the staff's extensive work over the past year. Therefore, I do not see much merit in seeking additional calculations by staff at this time. Rather, it may be worthwhile to attempt to make further progress through informal discussions of the Committee of the Whole.

Regarding the SDR, I hope that the convergence of views we have seen prior to the Annual Meetings will enable a conclusion of discussions on the equity issue before the Spring Meetings.

Turning to the ESAF and HIPC initiative, it is clear that significant efforts are still required before all outstanding issues are resolved. Thus, I am in agreement with the proposed work in this area, which should enable us to reach a timely conclusion.

Finally, on administrative and budgetary matters, I am in broad agreement with the proposals in the Managing Director's statement. On other matters, I look forward to the review of the effectiveness of the Fund's resident representative program.

Mr. Autheman made the following statement:

Like the three authors of the preliminary statements, I find this program well-designed and broadly relevant. I have some specific comments.

First, on the biennial review of surveillance, it is important to follow up on the agenda we had set two years ago and which was very well reflected in the April 1995 report of the Executive Board to the Interim Committee. I would personally emphasize two aspects: we need to resume our unconcluded discussion at this time on the way to improve the selectivity of our surveillance, and we can do it by taking stock of what has been done since April 1995. Second, we had insisted on the importance of follow-up procedures. Indeed, part of it is reflected in the country matters sessions, but we know that there are also other initiatives. I recall that in this context it was indicated that management would report to the Board on the follow-up initiative it was taking; this was part of our Interim Committee report. It seems to me that we have not yet found a way to organize it, and my sense is that the biennial review should address this aspect as well. I believe that between the two extremes, that is, a completely informal reporting of country matters and the exceptional specific reporting that was applied in one case, which is Sweden, we could use either a biennial review or a periodic review of what used to be the six-monthly review the Madrid Declaration and what now will be the review of the 11 "commandments," to assess and to get systematic information of initiatives taken by management in following up on Article IV consultations. This would not be a means for the Board to second-guess the initiatives but for us to be able to evaluate if these follow-up procedures are achieving their purposes, which is to secure the continuity of our surveillance.

I fully support the priority given to capital account issues and also to banking supervision, although in this regard I join my colleagues in insisting on the need to have a clear understanding with the World Bank on our relative responsibilities and our coordination. Indeed, it is an issue that was addressed both by Mr. Wolfensohn and yourself during the Annual Meetings.

I concur with Mr. Al-Tuwaijri and Mr. Bernes that we do not need a comprehensive trade paper. We may need to discuss the role of the Fund, but I think we can leave the comprehensive issues to others.

On data issues, I hope that at some stage, be it in April or when we will review in September 1997 the implementation of the special data dissemination standards, we will take the issue of charging a fee for the Bulletin Board, a fee for the participation on the Bulletin Board—a request I made with some others at the initiation of this experience; in other words, a fee on the users of the service, which is supposed to have value, and we think it has one.

On regional surveillance, I welcome the review of experience with Fund-supported programs in Eastern Europe, the Baltic countries, Russia, and the other countries of the former Soviet Union. Indeed, it has been three years since we had our last comprehensive review. Many issues, such as revenue collection, consequences of arrears, which are permanently recurring, the variety and consistency of our advice on exchange rate policy—these require comprehensive analytical studies by the staff and discussion by the Board.

On the ESAF and HIPC Initiative, I think there is a mistake in the paragraph which indicates that we will have a paper dealing inter alia with matters to allow "the" early transfer of resources from the Reserve Account to the SDA. Your summing up on which we agreed that no word should be changed was talking of "an" early transfer of resources from the Reserve Account.

On the review of experience in ESAF-supported program, I expected an explicit reference to inflation in that review. It is an issue I raised when we discussed the mandate of the external evaluators, and I referred to an assurance which had been given to Ms. Schadler, but the uneven and sometimes disappointing result in terms of inflation will be part of this review. To explain to my colleagues as to why I am insisting on that aspect, may I refer to an interesting working paper by Mr. Dicks-Mireaux, Mr. Mecagni, and Ms. Schadler of September 1995, which concludes based on econometric studies that, for ESAF-supported programs during 1986 and 1991, we could identify statistically significant beneficial effects on output growth and the debt service ratio, but no effects on inflation. So, I think that this issue must be taken into account in the review.

On the review of the Fund's policy on external payments arrears and the use of Fund resources, I believe, we should keep that issue on the shelf, and we do not need to respond explicitly to the request by the Group of Ten (G-10) industrial countries. Indeed, this issue is taken in other forums, such as the Institute of International Finance, and I believe that ambiguity is constructive and beneficial in this area.

Finally, I wonder what is the purpose and the use of a strategic discussion paper on benefits. This looks very mysterious.

Mr. Evans made the following statement:

Let me begin with the issue of priorities. I have read carefully your opening remarks about prioritization and selectivity, and I welcome the fact that management is to consider other issues outside the work program only as staff resources permit. But I would like to suggest ways in which the work program could become a better tool for Directors and management, such as setting out clearer priorities, tradeoffs between items and, indeed, some "price tickets" for the items there, which could be done by providing for each item a rough estimate of the number of staff months involved. I think we should make decisions on the basis of better information than we have now. That said, there is a heavy agenda of work ahead and I agree with the great bulk of it. Just let me recall the helpful suggestions that were made last spring by Mr. Sivaraman's predecessor, Mr. Geethakrishnan, and Mr. Waterman, in terms of wanting to set out more clearly the priorities of the Fund, ensuring that these priorities are consistent with the Board's work program and activities, and ensuring these priorities are consistent with the allocation of efforts and resources that cost the Fund at all levels. What I am arguing for here is trying to make a closer link between the work program, and the other considerations we have in terms of the budget, and so on.

On the specific points, there are five highest-priority items facing us. I would say those are surveillance, banking supervision issues, the HIPC debt initiative, the need to review the role of the Fund with respect to capital account convertibility, and the issue of data dissemination standards.

On surveillance, let me agree with Mr. Autheman's call for greater selectivity. I believe the proposed topics for the World Economic Outlook and the biennial review are sensible. Maybe the fiscal papers could be incorporated as studies within the World Economic Outlook, with the implications for Fund surveillance then considered in the next six-monthly review of members' policies in the context of surveillance in September. On WEMD, my feeling is that a discussion every six weeks is too frequent and we could, unless there are significant market developments, have one a little less often. Let me also welcome the proposed seminar on the implications of EMU for the International Monetary System.

The second high priority is banking supervision, and the Chairman made this very clear in his remarks at the Annual Meetings. As Mr. Autheman reminded us, we now have our eleventh "commandment," which addresses the issue. I think the major questions here are, first of all, how ambitious should the international community be in defining standards worldwide; and second, what should be the division of responsibilities between the World Bank, the Fund, the Basle Committee on Banking Supervision, and other interested parties. It is not enough to say that the paper will take into account cooperation between the Fund and the Bank and others. The Chairman and Mr. Wolfensohn pledged to work very closely together on this issue, yet the division of responsibilities between the Fund and the Bank is entirely unclear to me and needs to be defined.

On the third priority issue, the ESAF and the HIPC Initiative, I thought that the wording was rather vague in terms of what was to happen when, and I would be grateful if the staff could elaborate on their plans in this area. Certainly, I and my Governor would like to see rapid progress in bringing countries to their decision points, and there were some concerns in the World Bank Board last week on the apparently slow pace of progress envisaged in coming months. I endorse Mr. Bernes's comment on the need for early consultation with other major creditors.

On capital account issues, we argued strongly at the Interim Committee meetings in favor of the need to amend the Articles of Agreement to reflect the much-increased significance of capital market flows. I warmly endorse the proposed work in this area. I think we will need to cover the future role of the Fund, in particular how far the Fund should go in helping countries with capital account problems, as it has been doing for sometime in Mexico, Russia, and other places.

I hope that the international capital markets report in 1997 will include some more work on the issue of the ability of financial markets to discriminate between countries. In the wake of the Mexican crisis, we did identify an increase in spreads and in the variance of those spreads. My impression is that that has changed back again quite significantly in recent months, and I think it would be useful to have some analysis of how far the differences between the economic situations, particularly in emerging markets, are reflected in financial markets.

On data issues, I can support the increased work on data issues envisaged, and look forward to even more countries signing up to the SDDS.

I want to just say a bit about the areas of Fund work where I think we could envisage doing rather less. I have already mentioned less frequent WEMD discussions. As Mr. Al-Tuwaijri says on the quota issue, I do not see great merit in having another detailed paper. There is more scope for selectivity on industrialized countries. I want to join colleagues in stressing the need to avoid duplication in trade papers. I was not convinced by the suggestions, and I would like to suggest that we rely instead on papers produced by either the Bank or the WTO, though on trade I do want to support the suggestion that we look at the pace of trade liberalization in program design and, in particular, the trade-off with fiscal objectives. There are some difficult choices to be made here, and I think it would be worth having an explicit discussion of that.

I want to welcome the good progress made on the New Arrangements to Borrow, and hope that we can see a paper on that soon. Unlike Mr. Autheman, I welcome the suggestion that there should be a paper that looks at the G-10's request for the Fund to consider the issue of lending into arrears and whether that should be broadened to encompass arrears on sovereign bonds. It is true that we have had some valuable contributions from outside, but at the same time we have to be clearer what our own policy should be.

I want to welcome the review of experience with Fund-supported programs in Central and Eastern Europe, and the Baltic countries, Russia, and the other countries of the former Soviet Union. Maybe we can find some way of fitting this review into the work of the working group on evaluation.

One other issue, and that is the issue of technical assistance in the Fund. This is a large element in our budget and yet we have relatively few discussions in the Board and nothing, as I see, planned. I am sure that management considers papers on issues of priorities, cost recoveries, some issues raised but not settled in the MAE report last year, and I would like to suggest that we find time to bring those issues to the Board.

Finally, I was rereading the Whittome Report which, of course, talked again about the Fund needing to establish its priorities. I think that means making a link between the Work Program and our resources to ensure that we have the resources available to do the job we set for ourselves and not to take on more than we can reasonably achieve.

Mr. Kafka made the following statement:

We are grateful for the Managing Director's Work Program. As usual, it is substantial and there are no items which can easily be dispensed with. Nevertheless, there are a very few matters which might benefit from additional reflection before being incorporated into the Work Program in the form which is proposed. Thus, do we need a paper and discussion on smoking as a matter of urgency? Also, while during our recent luncheon there was strong support for some shift in emphasis from operational matters to analytical problems of the IMS, perhaps the implications could be reflected more clearly in our Work Program. Now, on the various other points raised in the Work Program.

With respect to the surveillance reviews, there are two aspects which are of particular interest:

(i) The question of transparency, particularly the possible release of Article IV materials. We believe that even if members retain the right not to opt for release with respect to themselves, the practice of those who do opt for release would put pressure on the rest of the membership to follow suit. In turn, the fear of such pressure would be likely to lead to a less open interchange of views than we have had so far. This, and other possible consequences, need to be weighed even before we engage in a discussion of any specific proposal for greater transparency.

(ii) Regarding Fund surveillance over soundness of banking systems, before making any recommendations we would like to see more input from the BIS on this matter, regarding countries under its purview. Specifically, we would like to know how the work could be distributed between the Fund and the BIS in order to avoid duplication of efforts.

In regard to banking supervision and monetary issues, we look forward very much to the conference on EMU and International Monetary System.

We also look forward to the paper on the role of the Fund and issues of governance. These are, however, delicate issues which may require a good deal of time.

On the Fund's financial resources, under this item, there are some vital matters proposed for discussion. We would mention in addition to the more obvious ones, viz quotas and NAB, guidelines for allocation of currencies under the operational budget, and retention in a special account of reserve tranche purchases to settle SDR charges and assessments.

Concerning policies on the use of fund resources, we look forward to the country papers on the HIPC Initiative and on the progress report promised for March 1997.

We are also looking forward to the paper on operational issues referring to the financing of ESAF and HIPCs. On the issue of early transfer of resources from the Reserve Account to the SDA, it would be helpful to have more on the subject of optimizing the use of Fund resources. Also important is the proposed discussion of the paper on large-scale use of Fund resources and the paper on safeguards for the Fund, when such use is required. Similarly, we look forward to the proposed paper on lending into arrears. In addition, we strongly support Mrs. Gotz-Kozierkiewicz' proposal to add to the Program a review of the Fund's approach to program design.

As to administrative and budgetary matters, in this connection, we are particularly interested in the proposed review of categories of employment in the Fund.

Mr. Mesaki made the following statement:

While I broadly agree with the thrust of the Managing Director's statement, I would like to make a few comments on each agenda item.

First let me begin with banking supervision and monetary issues. On the issue of international banking guidelines, although we do not yet have a clear idea about the paper's contents, I would particularly note that, given the Basle Committee's substantial knowledge of this issue, the Fund should clarify its role to avoid duplication with that of the Committee. In this regard, it is important for the Fund to maintain close contact and to improve cooperation with the Committee. Since the Fund's expertise on banking supervision could be improved, some brushup in this area is needed. In addition, if I may add one more comment on this, I urge that this kind of study—as well as the

Fund's activities in this field—be implemented not from the point of view of establishing new regulations or guidelines, but under the framework of surveillance.

Second, on data issues, I would commend the staff on its efforts toward the implementation of the Special Data Dissemination Standard.I expect further work toward the delayed General Data Dissemination Standard project to benefit from the success of the Special Data Dissemination Standard. The implementation of the General Data Dissemination Standard is regarded as a more important next step, since its implementation would improve the data availability on the monetary and economic situation of both emerging countries and developing countries in the international markets.

Third, with regard to SDR, it was agreed during the last Interim Committee that discussion of SDR allocation would be concluded by the time of next spring's meetings. I expect this discussion to continue. The discussion on the quota increase under the Eleventh General Review should also be pursued to reach an agreement as soon as possible. Dealing with these two issues simultaneously will make it easier to win support in home countries.

Fourth, for countries deemed eligible for the HIPC Initiative, the statement refers neither to the timing of discussion on the preliminary HIPC documents nor to the timing of the decision point. I would welcome management's ideas on the timing of these Board discussions. In addition, while it is my understanding that the timing of the decision point will depend on both the Board's guidance regarding the preliminary HIPC documents and on the result of consultations with other creditors, I would nonetheless like it confirmed that this Board discussion will not be held prior to our discussion on strengthening ESAF conditionality during the second stage.

Fifth, I welcome the discussion on capital account liberalization and look forward to seeing this paper. I also welcome the seminar on the EMU and the International Monetary System, as it is timely and very important.

Sixth, let me elaborate on the Japan Administered Account for Technical Assistance. This account, which is commonly called JAA, was established in 1990 to support the Fund's technical assistance; my authorities have contributed some 77 million dollars to this effort. The JAA was originally designed to resolve debt issues of the member countries. To meet the expanding role of the Fund, however, we now need to broaden the scope of the JAA. The proposal of the amendment of the Instrument will be made in cooperation with the Technical Assistance Secretariat in the near future. As I wish to deal with this amendment on a lapse of time basis, I would appreciate the Board's support.

Finally the Board schedule for December and January seems very heavy. I hope management will make every effort to avoid the bunching we experienced toward the end of last year. I also support the decision to use a lapse of time basis, and hope that we will make effective use of the lapse of time procedure.

Mr. Esdar made the following statement:

At the outset let me note that we very much appreciate the format of your statement. It is very concise and to the point.

We are again confronted with a heavy agenda. The proposed work program reflects a commendable effort toward prioritization and selectivity in our work. I can broadly go along with the suggested overall framework and will concentrate my remarks on those issues where I have some comments on substance or where I see further room for prioritization and streamlining of our agenda.

First, some remarks on substance:

On banking supervision, like Mr. Bernes, we welcome that the paper on banking supervision will take into account the established cooperation between Fund and the Basle Committee of Banking Supervision, the World Bank and other bodies, in order to avoid duplication of work and to pay due regard to the respective responsibility of each organization. The responsibility for developing and setting up appropriate supervision framework has to remain in Basle. The Fund in its surveillance function has to concentrate on its implementation and also on urging countries to adopt the appropriate guidelines. While we in general appreciate the envisaged paper on systemic bank restructuring, we would suggest that the World Bank should be involved appropriately. We would even prefer to have a joint paper of both institutions on this subject.

On the review of experience under ESAF-supported programs, since the issue of prolonged use of ESAF is not covered by the external evaluation, we have suggested and will do this again today that this issue should be given serious consideration in PDR's review of the ESAF and also analyze the question if and to what extent a softening of the ESAF-instrument has contributed to a lack of discipline and possibly impeded the adjustment process.

On currency board arrangements, we appreciate that this issue which was already envisaged under the previous work program will be taken up in January. However, we would prefer that the discussion could be more broadly focused and discuss the economic effects of currency boards in the general framework of pros and cons of different exchange rate regimes. For example, the exit question is not also relevant for currency boards but also for other fixed or crawling peg regimes.

Second, some suggestions on prioritization:

We had a very extensive discussion on basic votes several months ago, and the Board came to some general conclusions. I do not see that new papers will generate substantially new findings.

On the comprehensive trade paper, after the establishment of the WTO, I see definitely no need for the Fund to prepare a comprehensive paper on trade. But I agree with Mr. Evans that it is important to have a paper on the effects of trade liberalization on the budget, on possible offsetting measures and on the general role of trade reform in Fund-supported programs.

Also, the envisaged paper on reserve tranche purchases to settle charges and assessment in the SDR department seems to be of somewhat lower priority.

Finally, I am looking forward to have a review of the experience with Fund-supported programs in central and eastern Europe and some FSU-states. However, I still have some questions about the background of the study, the envisaged role of experts, and how this study fits into the newly established evaluation program?

Let me add one additional point as a reaction to Mr. Bernes's statement on HIPC and ESAF. I would expect that—once potential donors have been canvassed—that there will be no need to return to the question of an additional optimizing of resources because there will be sufficient pledges including SCA-2 to finance both HIPC and ESAF. However, this may take some time, not at least to give member countries sufficient time to overcome institutional or political hurdles. Therefore, I would suggest to allow sufficient time and refrain from setting ambitious deadlines. A premature discussion on easy ways out by optimizing the Funds resources is bound to undermine the commendable efforts of you to raise sufficient funds.

The Chairman noted that the papers by outside experts reviewing the experience with Fund-supported programs in Central and Eastern Europe, the Baltic countries, Russia, and the other countries of the former Soviet Union had been initiated prior to the introduction of the Fund's external evaluation program. He felt that it would be useful to have the views of outside experts on Fund-supported programs in the transition economies.

Mr. Esdar, noting that Mr. Evans had called for more rapid progress in bringing HIPC-eligible countries to their decision points, remarked that the Executive Board had already agreed to the rules governing countries' eligibility under the HIPC Initiative, as well as the time frame for countries to reach the decision point. It was up to the countries to ensure that they conformed to the rules in order to be eligible for debt relief. He was reluctant to endorse Mr. Evans's suggestion that the initiative should be applied flexibly.

Mr. Evans recalled that the Ministers of the Interim Committee and Development Committee while welcoming the HIPC Initiative had stated that the initiative should be applied flexibly, and had called for rapid progress in implementing it.

Mr. Esdar commented that there was provision under the initiative for flexible treatment, but one should not go too far in increasing flexibility. Certain rules had been agreed to, and they should adhere to them.

The Chairman observed that, in implementing the initiative, the Fund would be faithful to the spirit of the decision of the Executive Board and the views of the Interim Committee and Development Committee.

Mr. Wijnholds made the following statement:

I appreciate your efforts at prioritization and selectivity for this Work Program and I think you have succeeded admirably in achieving that objective. Of course there will be much to do, and there will be periodic bunching of items (largely inevitable I believe), but all in all I find the work program a very good basis for proceeding during the coming months.

Much of the program is of course dictated by the need to prepare for April's Interim Committee meeting. In this connection I particularly welcome the planned early resumption of Board discussions on the SDR, so that an equity allocation can materialize as soon as possible, and on an increase in quotas. I sincerely hope that we can start serious negotiations on this matter soon. We must also move swiftly on the implementation of the HIPC initiative. On this initiative, I did not see the 'preliminary HIPCs-documents' mentioned on the schedule of country items. Regarding these documents, I presume that they will include norms for vulnerability factors. This could either be done on a case-by-case basis or analogous to the debt ratios which were developed earlier by the staff.

On capital account liberalization, I welcome the exercise we are undertaking without stating where I think we will come out. I also support having a discussion on the Fund's policy on external payments arrears and the use of Fund resources.

On special issues there is an interesting menu of topics to be discussed. Issues such as banking supervision, governance and trade are all timely and relevant to the work of the Board. However, they are not really part of our core activities and we should continue to take due account of the work done in other organizations on these topics. I was therefore pleased to note that special monetary issues have not been neglected, although I would not have minded some more emphasis on them. Nevertheless we will finally have an opportunity for a general discussion on currency boards, which may prove to be a growth industry—at least in my constituency. I certainly welcome the conference on 'EMU and the International Monetary System' and the envisaged follow up Board discussion. I even see a link here with our SDR seminar of March this year in that EMU will have important consequences for international reserves, as was pointed out several times during this year's conference. The idea of having an annual conference with outside participation is an appealing one, which I strongly support.

There is one paper that I do not consider necessary, namely on the methodology used to project the Fund's liquidity position. As I have stated before, I do not expect attempts at fine tuning of these admittedly imprecise calculations to be of much use.

Turning to administrative matters, I look forward to the informal discussion next month on recruitment, nationality distribution and staff diversity. I hope the paper will also cover such areas as assistance in finding jobs for spouses of Fund staff members, as I believe that spouse employment is an increasingly important element in the search for high quality and diverse staff members.

Finally, under the heading 'other matters', I particularly welcome the review of our resident representative program. Our resident representatives play an important role in many countries—in my constituency no less than 10 countries—and it would be very useful to evaluate this part of the Fund's activity which is probably not very well known. In this connection I would like to flag that with the recent appointment of a Fund resident representative in the Netherlands Antilles a precedent in terms of diplomatic immunity for resident representatives was established. I think this is an important innovation providing better protection for our staff. More in general, I believe it would be useful to have a Board discussion sometime next year on the general question of the legal protection of the staff, a subject on which the Legal Department has done quite a lot of work this year.

The Chairman said that he took note of Mr. Wijnholds's suggestion. He looked forward to the review of the resident representative program.

Ms. Lissakers made the following statement:

Like other members, I am quite appreciative of the somewhat clearer format and presentation of the work program, and the clear statement of priorities in this document. I agree broadly with the agenda that is set forth for the Board, and for the priorities with very few exceptions. I think given the very heavy work load that is laid out, it is incumbent on the Board to try to maintain a strategic focus and to try to pinpoint within each of these topics the areas precisely where the Board should put the weight of its own work and debate.

In terms of the agenda itself, the paper highlights two important new ventures. One is in the surveillance of banking systems and financial markets in member countries. This is a welcome and necessary addition to our surveillance activities. I have a couple of questions about the presentation.

One is the paper on international banking guidelines. I understand why management would want to have the Board imprimatur with what I assume would be a set of guidelines for the staff to use in their surveillance activities. But with others, I would add the caveat that the guidelines themselves should be developed by the banking regulatory authorities and not originated here.

Second, on the paper on bank restructuring, I agree with those who say that this would seem to fall more in the World Bank's purview. I do not have a problem, per se, with certain competitive overlap between the institutions. I see some use in that. But I think there is a risk that because the Fund tends to be quicker on its feet than the Bank, that we will end up with too much of what the Bank should be doing in our lap. Also, we have talked often about improving and tightening the collaboration between the Bank and the Fund, and in a lot of areas. It seems to me this is an opportunity to do that, because both institutions are to some extent not exactly starting from scratch, but moving in a more ambitious direction in this area, and both are putting more resources into this area. I think this is a case where we should work very hard to come up with the right division of labor between these two institutions, and also define the collaboration between the Bank and the Fund, and banking supervisory authorities in the BIS, and so on, as others have said. I think the Board frankly should spend more time on that—on this sort of strategic division of labor—than perhaps refining and defining the guidelines which I consider an area beyond our expertise, to some extent.

I think this new area of activity also has some very important budgetary implications and resource allocation challenges for the Fund itself. I think we need to think as we look at the budget how we can marry our consideration of the division of labor, the resource implications and the management of this, for the overall budget design and distribution of resources within the institution.

The second new venture is the capital account—namely, the possibility of an amendment and other considerations, which I think is quite rightly being given high priority. This is an area where we can update the institution in light of the globalization of financial markets, and I think the report rightly gives priority to this. I guess I am not entirely convinced that we will be able to come to clear conclusions on this by April, but I am certainly willing to try.

On surveillance issues, obviously the EMU is the most important topic. I am glad that we are finally going to delve into this with some concentration of effort. I am a little concerned that we have a full conference agenda (on EMU), which I think can be a very useful tool in bringing out the issues. But I do not see the conference as being a substitute for full Board consideration of the implications as this is a seminal event for the international monetary system, and we are the Fund. There has to be some formal Board consideration of the implications, too, not least in light of the fact that EMU has some relevance to the quota review in which we are engaged.

Others have highlighted the priority to move ahead with the debt initiative and to implement that as quickly as possible; I share the views of Mr. Evans and Mr. Bernes on the desirability of moving swiftly to implement this and to deliver the debt relief that some countries are clearly both in need of and qualifying for.

On areas of lesser priority, I agree with those who suggest that we largely drop the papers on trade matters, and I could also forgo a discussion on the Multilateral Agreement on Investment. I would be interested in knowing why we should take that up. But, as I have said before and others have noted, I do think it is very important that we take a good, hard look at our program design with regard to the pace of trade liberalization. I am glad to see that is on the agenda.

On surveillance, with regard to the World Economic Outlook, I would just repeat one suggestion I made in the course of the last discussion, which was that we divide the discussion between the country economic performance issues and the core policy issues that are analyzed in the World Economic Outlook so that we can have a little more focused debate in those two areas.

I am glad to see that the issue of release of Article IVs reports is back on the agenda. I just received a request from Documents Division that they be permitted to make available the U.S. Article IV documentation to the Economic Commission for Latin America. Now, while this is an unaffiliated entity, it is really a think tank, and I find it somewhat anomalous that Documents Division should be able to distribute the U.S. Article IV to academics working in that institution, whereas if I were to make the U.S. Article IV available to economists at Brookings or Rand, for example, I would be violating Board rules on confidentiality. I think we are reaching the boundaries of absurdity, frankly, and I am glad to see we are going to review this.

I would also note that it has become increasingly frequent that individual Board members make public representations about the Article IV discussions and Fund recommendations, but sometimes perhaps with some selectivity in what is presented as Fund views on country economic programs. Again, I think the way to deal with this is simply to make the full documentation available if we are going to go in this direction.

On the governance issues, we are fully supportive of addressing those. We look forward to consideration of currency boards, as well as the exact strategies.

I have one question on the rights accumulation program, which is set to expire in April. The last extension provided for early consideration to take account of developments regarding SCA-2. I wonder if the staff could tell us when rights accumulation programs are going to be discussed. This is an important item.

There is also reference in the document—in the ESAF HIPC discussion—to "modalities for special ESAF operations in the special disbursement account." I wonder if someone could explain exactly what this means.

In the discussion on Fund liquidity, I wonder whether this should also not be tied in with the Fund's operational budget. We might want to consider decisions on guidelines for the currency budget in the context of this liquidity discussion.

Finally, I welcome the fact that the Board itself will have an opportunity to review the Management's efforts in the area of recruitment nationality and staff diversity. I hope that department heads—and division heads at least—will be invited to attend that informal Board discussion. I also hope that this discussion will include, in addition to the other issues, a review of mid-career recruitment and in-and-out movement of staff that we have discussed informally in the Board before. Also, we should discuss opportunities for staff to take leaves of absence and the incentives given to them for such absences either to advance their education or to work in some other forum for a period of time.

Mr. Evans remarked that, although the Fund tended to move ahead on issues more rapidly than the Bank, banking supervision was an area where there were considerable advantages in the staffs of the Bank and the Fund preparing a joint paper, which would be discussed by the Executive Boards of both institutions. However, where he would hope that the Fund would not be involved in the issue of bank restructuring, but would leave that to the Bank to address.

The Chairman noted that he wished to reassure speakers that the Fund would not be involved in establishing international banking guidelines, but would leave that to others. Furthermore, he had discussed with the President of the World Bank the issue of cooperation between the two institutions in the area of banking soundness. The staffs of the two institutions were working on an appropriate division of responsibilities, and the Board would be kept informed of all developments.

Mr. Zoccali made the following statement:

I am grateful to you for the focused work program that has been proposed. Despite the attention given to prioritization, the work load remains heavy, particularly on country matters therefore, I fully share the emphasis given by previous speakers to selectivity. In this regard, it is incumbent upon the Board to secure efficiency gains through increased use of the lapse of time procedure and, when formal discussion is required, through strict observance of the guidelines governing duration and content of Board statements. Similarly, I would endorse the views of Ms. Lissakers, Mr. Evans and others, regarding the desirability of a strategic division of labor with the World Bank in the many areas of overlap, particularly bank restructuring and supervision and trade policy.

Further progress is expected before the Spring Interim Committee Meetings on many important issues, including a Quota increase, an SDR allocation, the Interim ESAF and the HIPC initiative and the broadening of Fund jurisdiction over capital movements. In that regard, we should keep in mind the desirability of securing agreement on the broadest possible number of issues to economize on parliamentary approvals and facilitate reaching the required majorities, already noted by Mr. Mesaki.

In this regard, the discussion of charges on large scale use of fund resources could end-up undermining the Fund's unique cooperative character without intrinsically strengthening its ability to improve the adjustment process. In our view, this issue could be addressed more constructively within the general framework for apportioning the costs of running the institution, perhaps even by revisiting at some stage the variable uniform norm which provided a transparent and equitable framework for financing the administrative and capital budgets of the Fund, including accumulation of precautionary balances.

Having said this, I will confine my remarks to just a few additional issues.

In regard to the world economic outlook, the world economic outlook exercise continues to be a privileged vantage point for assessing key adjustment issues from a multilateral perspective. We welcome the particular emphasis to be given in the industrial countries' section to the effects on employment and wages of trade with emerging market economies, the constraints imposed on policies by international integration and progress in Europe toward EMU. Suffice it to note here that these topics are also relevant to transition and developing countries in an environment of globalized markets. In that context, the focus of the study of the effects on employment and wages of trade should be broadened to cover all the interlinkages and not just those between industrial countries and emerging market economies. By analyzing a broader range of interactions affecting employment, more balanced policy recommendations could perhaps emerge. Regarding the developing countries' section, we would be surprised if the proposed analysis of the contrast in growth between strong and weak performers offers additional insight to that provided in previous World Economic Outlooks and elsewhere, revolving around the degree of members' commitment with the Funds' conventional policy advice.

On surveillance reviews, the work program before us addresses critical areas related to the challenges for surveillance in the period ahead. We should use this period of relative calm in foreign exchange and financial markets to better prepare ourselves for new bouts of market turbulence. In this regard, in addition to the issues contained in the work program, most noticeably related to the strengthening of surveillance in the area of soundness of banking systems, attention should also be paid to the incentive structure in the international financial system, in particular, to the connection between high or increasing asset price volatility and trading profitability. Developing practical knowledge of financial market behavior would allow us to differentiate between the disciplining action of markets from disturbances which, even if not intentionally generated, were at least exacerbated by the market dynamics. The Fund should be prepared to offer an objective and balanced view of the situation in any given country experiencing an abrupt change in market sentiment.

Another aspect that might usefully benefit from greater attention is whether the incentive structure including prudential regulations, facilitates financing of increasing fiscal deficits and levels of public indebtedness, both in industrial and developing countries. The paper on fiscal rules, beside evaluating their usefulness as an instrument of fiscal policy, could also be a starting point for addressing this issue.

Regarding the well-intended efforts to strengthen the soundness of banking systems, we should keep in mind that soundness is not a fail-safe guarantee against systemic risk. Rather it is a concept that contains fleeting characteristics: what is sound today may not be so tomorrow, particularly if significant changes in macroeconomic conditions occur. In this connection, the effectiveness of Fund surveillance will be measured more by the ability to detect early-on the turning points in macroeconomic conditions, while offering suitable corrective policy options, than by its direct assessment of banking soundness. Nonetheless, we see merit in the continued dissemination by the Fund regarding developments in the areas of prudential regulations and banking supervision in a manner that avoids duplication with other fora, in particular the BIS.

Having said this, we welcome broadening the scope of the policy of lending into arrears in the context of the forthcoming review of the Fund's policies on financing assurances. This is an important first step toward a more systematic understanding of the moral hazard involved in the Fund's financial support, to dispel the perception in some quarters that these are bail-out operations. We also see great merit in the projected inclusion within the 1997 International Capital Markets Report of an in-depth analysis of sovereign external asset and liability management.

In looking at ways of improving transparency, care must be taken to ensure the broadest consensus on future moves regarding release of Article IV materials. This topic has been extensively discussed and strong reasons were advanced against release of documents containing staff projections and recommendations in view of its potentially adverse impact on the candidness of the relationship between the Fund and authorities, including implementation of adjustment measures and its uncertain impact on expectations, particularly in the case of smaller economies undergoing profound structural change.

As for monetary issues, with respect to the awaited paper on currency board arrangements, to be considered in seminar format in January, the analysis of the trade-off between policy flexibility and credibility in the arrangements should fully reflect recent experiences, including the greater than expected scope for policy flexibility without impairing credibility under the Argentine Convertibility framework. To be balanced, the exit strategies should not be presented as inevitable outcomes of currency board arrangements and the experience of countries which successfully managed upward valuations of their currency also taken on board. As the recent Board discussion on Argentina showed, it would also be important to shed some light on the actual degree of policy flexibility in situations where dollarization persists in the aftermath of stabilization. Therefore, I am very much in favor of the broader focus requested by Mr. Esdar.

I would like to conclude with two brief specific remarks. First, to welcome the envisaged papers on governance, a matter that has recently concentrated a great deal of interest in the wake of the Interim Committee's Declaration on a Partnership for Sustainable Growth. Second, to endorse the call for a more detailed periodic description of research issues being analyzed by staff or that will be pursued in the research program for the period until the 1997 Annual Meetings. Footnote 1 of the Introduction to the Work program circulated to the Board only wets the appetite for dissemination of such information on a regular basis to facilitate economies of scale particularly among researchers in member countries working on similar issues.

Mr. Martinez Oliva made the following statement:

The statement before us shows that the workload ahead is heavy as usual. A note of satisfaction is nonetheless in order if one considers the big amount of work already done in the past months.

There is no need to say that a number of issues or activities deserve a higher priority than others. In the presence of particularly stringent resource constraints, our exercise in setting priorities is therefore essential to try to optimize their utilization.

At the outset let me say that I broadly share the list of priorities mentioned at the beginning of your statement, which is made in accordance with the mandate of the Interim Committee. I note how much the relative weight of the Fund's surveillance is increasing and how broader is the range of fields of intervention that the surveillance activity involves. This is consistent with the experience of recent years, which has proven that monitoring the world economy is important, and early detecting potential sources of international financial instability before their effects become overwhelming is necessary. I would like to add that I endorse the emphasis on Fund resources, and their utilization, and that I fully share the aim to finalize the SDR issue.

Moving to single points, I welcome the continuation of our regular surveillance activities such as the World Economic Outlook discussions, and the WEMD seminars, where the staff analysis always offers a valuable background for discussion on crucial issues affecting the world economy. I would like to add that I find the current frequency for the WEMD seminars to be broadly appropriate.

I also find that the coming biennial review of the implementation of the Fund's surveillance—scheduled for next February 1997—will be an important occasion for a review of our experience in the past two years. In that context progress in enhancing transparency, and in improving regional surveillance and the soundness of banking systems, is certainly to be pursued. On banking, I assume that the subsequent discussion in March of a paper on international banking guidelines will provide a useful occasion for examining the issue in depth. In particular, I expect that the paper will take stock of our discussion on International Capital Markets last July, which yielded an articulated and useful picture of the comparative advantages of the Fund and the Basle Committee in what concerns the creation and the dissemination of supervisory and regulatory methods and standards. I also think that it would be worth investing some resources in trying to define the relative roles of the Fund and the Bank in this field.

The papers on capital account convertibility and the role of the Fund, which respond to the Interim Committee request to report on this issues, will provide an occasion for an interesting debate on the future shape of our institution. Extending the jurisdiction of the Fund to include capital movements is an ambitious goal whose potential impact needs the broadest and most careful evaluation. The issue of a possible amendment of the Articles to this purpose also deserves a special attention.

On data issues, I consider the progress so far achieved a success and am convinced that we are moving in the right direction. I, therefore, welcome the forthcoming papers on various aspect of data dissemination standards and will look at the next steps with an open mind. In particular, I am interested in the Fund's effort to establish hyperlinks from the Dissemination Standards Bulletin Board to country data site, an initiative which can help increase transparency by stimulating member countries to compete in providing complete and updated statistical information to the public.

On regional surveillance, I naturally appreciated the emphasis that is going to be placed on EMU issues next year, as witnessed by the forthcoming conference on EMU and the International Monetary System in March 1997 and the preparation of a paper by the staff for Board consideration in April of the same year. The paper should in our view look again, and as much in depth as possible, to the question of the possible external effects of the EMU.

The country-related work appears to be very heavy, particularly concerning Article IV consultations. In this context, recent Board's discussions have underscored the need to review procedures with a view to improving our ability to cope with a continuously increasing workload, without reducing, at the same time, the effectiveness of our surveillance, as well as the perception of it by the outside world. This is going to entail some careful balancing of different needs.

Considering the Fund's Financial Resources, I gladly see that quota is going to be considered soon by the Board, in mid-December. This is among the most important tasks laying ahead of us, and I hope that we will be able to complete the Quota Review work in the following months. I also welcome the initiative to issue a paper on the New Arrangement to Borrow.

The use of resources includes two very important items like ESAF and the HIPC. I am glad to see that a number of papers on these subjects will be issued, aimed at providing technical background for further Board discussion. I also look forward to see the paper on the review of experience with ESAF supported programs, which can prove extremely useful at the present stage.

Mr. Toribio made the following statement:

As you know, this is my first statement in this Executive Board, and I am glad to start with an expression of broad agreement with the work program proposed for discussion by the Managing Director and with the suggested priorities for the different topics involved in it. It is certainly a very heavy agenda, and this chair will try to do its best to make positive contributions to it in the coming months. Let me, however, remark on some points that in my opinion could add some clarifications to the task we have ahead of us.

First, in the chapter on surveillance, this chair welcomes the proposed papers being prepared by the staff, both on the experience of surveillance accumulated in the recent past and on the challenges that lie ahead as a result of the opportunities and policy constraints imposed by the globalization of financial markets. In particular, I look forward to the discussion of the papers related to the capital account convertibility and the role of the Fund, with the consideration of a possible amendment to the Articles. This is a topic of the highest importance for the international financial markets and, as a result, for the efficient allocation of capital in the world economy. Given the polemic that surrounds all the issues relative to free capital movements, I am sure the financial markets will welcome a clear stand of the Fund on this matter. I think we have an obvious responsibility on the future configuration of capital markets once and for all.

This chair also looks forward to the discussion of the proposed papers on bank supervision and bank restructuring. Let me suggest, however, that, besides discussing the role of the Fund on this matter, and in coordination with other agencies and institutions, we give a serious consideration to the means, both human and material, available for this purpose. Certainly, banking supervision is a delicate matter, for which very specialized resources are needed, and we had better be sure that we have them.

In the work agenda for fiscal matters and government operations, let me recall that the Declaration on Partnership for Sustainable Global Growth adopted by the Interim Committee raised once more the need to reform public pensions and health systems as a means to improve the quality and composition of fiscal adjustment. I know that in the past the staff has prepared, and this Board has discussed, very deep analysis on these topics, but I wonder whether we can consider these problems as sufficiently dealt with. Personally, I have missed in the agenda a further review of those important matters for the proposed work program. The Declaration on Partnership for Sustainable Global Growth also pointed out the need to tackle structural reforms more boldly—"including labor and product market reforms to increase employment and reduce other distortions"—but again I find missing from our agenda further work on these topics, which continue to be of utmost importance.

In my opinion, there are many countries, in both the industrialized and the developing world, which are in need of those difficult reforms and which are struggling to have them, and they have a right to expect stronger encouragement and clearer support from the Fund. But the last thing I want to do is to run the risk of having our Managing Director overloading an already heavy agenda with new topics not initially included in it. So let me indicate what in my opinion could be dropped out or at least postponed for us to make room for the matters I have suggested above.

One topic which we think we could live without is that suggested by Mr. Zoccali. I mean the topic on the charges on large scale use of the Fund's resources, which may not only be inconsistent with the cooperative nature of our institution—I agree with Mr. Zoccali—but which perhaps comes at an inconvenient time, with possible negative side effects on other discussion matters. Perhaps we could better devote our time and energies to less divisive topics.

We certainly are obliged to go deeper with the proposed papers about revised quota calculations and issues related to the size and distribution of quota increases. As you know, the authorities represented in this chair have not only been in favor of the proposed increase in quotas but have consistently stressed the need to revise the calculation on which quotas are assigned and the distribution of relative quota assignments. I am, however, less sure about the question of basic votes. Perhaps we could deal with that matter within the context of revised quota calculations and quota assignments.

Finally, let me make some suggestions about matters of simple administration. For instance, I consider the workload unevenly distributed along the calendar year. Specifically, the coming month of December seems to be loaded with as many as 13 topics on policy issues, as well as a number of country items, and I wonder whether it would not be more realistic to redistribute some of those discussions to less crowded months, although I would not take this remark too far. I would stress, however, the need to clarify the composition and schedule of some of the existing committees, among them the Budget Committee, to which several matters are entrusted in the proposed work agenda.

I would like to finish by congratulating again the Managing Director for his effort to translate the global strategic lines of the Fund into a concrete, itemized, prioritized, and functional working agenda. I think this effort has been very successful.

Mrs. Farid made the following statement:

As other speakers, I broadly share the priorities contained in the Managing Directors' proposed Work Program.

I have only a few brief comments.

For the spring 1997 World Economic Outlook paper, I agree with the emphasis placed on dealing with the challenges associated with the new global environment of more closely integrated markets. I note with interest that for the industrial countries, the paper is to include a review of the effects on employment and wages of trade with emerging market economies. I look forward to the useful insights which this section should provide on the dynamics of adjustment of industrial economies to both increased opportunity and increased competition that faster growth in developing countries and the expansion of global trade are providing.

I support Mr. Zoccali's remarks on ensuring that the review covers all the interlinkages involved from a broad global perspective.

I also look forward to the review of the Fund's efforts at strengthening surveillance in the context of the biennial review. On the release of Article IV consultations, I would agree with Mr. Al Tuwaijri, that given the heavy Board agenda, a further discussion of this issue would only be beneficial if there is evidence of a major change in Director's views. I also take note here of Mr. Kafka's remarks on this subject.

On HIPC and ESAF, I would join Mr. Evans, Ms Lissakers and others, in support of speedy movement on these initiatives.

On the subject of Capital Flows to Developing Countries, I would note the importance of Fund guidance to policy makers on the adequate policy responses to capital inflows. I wonder if there is scope in this work program for more work to be done on this important issue.

On monetary issues, while I welcome the forthcoming paper on currency board arrangements, like Mr. Esdar, I would like to see it broadened to include the policy implications of exchange rate pegs and the thorny issue of exit strategies from fixed exchange rate arrangements.

As this chair noted on the occasion of the last discussion on the Review of Members' Policies in the context of Surveillance, I am in favor of having additional work done by staff on the costs and benefits of alternative strategies of disinflation. I would also support Mrs. Gotz-Kozierkiewicz's proposal to include a review of the Fund's policy on program design.

Mr. Prader made the following statement:

The proposed work program is ambitious and inclusive, in several respects it adds to the work load defined by the Interim Committee in its last communique and its Declaration on Partnership for Sustainable Global Growth. It also focuses on such basic themes as surveillance, the implications of capital market globalization for the Fund's role, the continuation of the data dissemination initiative, and the ongoing discussion of issues connected with the financing of the Fund. However, in view of the number of issues and studies to be discussed, it seems appropriate to ask Management whether the proposed work program can be financed with the resources available in the present budget or whether it will require additional resources to be found.

In any event, we look forward to the biennial review of surveillance, which will enable us to see how the Fund's surveillance function has been strengthened and enhanced in response to the findings of the Whittome report. We are far from reaching the goal of putting that report's recommendations into practice. For example, it remains to be discussed and clarified how to involve the Fund in surveillance over members' financial systems without duplicating the work of institutions already active in those areas, such as the Basle Committee and the World Bank. Strengthened Fund surveillance should also extend to the international capital markets which are increasingly being turned to by the emerging countries. Like others, we think it would be useful to have a new exchange of views on the Experience with

Fund-Supported Programs in Central and Eastern Europe and Some FSU States. We should also explore the G-10's proposal for the Fund to lend into arrears, taking due care to adopt an approach of "constructive ambiguity," to use Mr. Autheman's expression.

An area where the work program might need to be expanded beyond what Management proposes is the Declaration's "eighth commandment" on the quality and composition of fiscal adjustment, which specifically emphasizes the importance of developing human resources through improved education and training, reformation of public pension and health care systems, poverty alleviation, and well-targeted and affordable social safety nets. Certainly these areas should be systematically monitored as a part of the Fund's surveillance of fiscal adjustment in all member countries, whether industrial, developing or transition. We also look forward to consideration of the various studies on governance.

Of particular interest are the proposed papers on trade policy and the Fund's role in collaboration with the World Trade Organization. We would also be glad to see the Board consider a progress report on the Fund's collaboration with the International Labor Organization on macroeconomic issues and issues related to labor markets and social protection, which the Interim Committee agreed in October 1995 should be strengthened.

As to issues connected with the financing of the Fund, progress on the Eleventh Quota Review should now become a high priority in order that the Fund's permanent resources may be bolstered as soon as possible. Recent Board discussions have also underlined the need to clarify the HIPC initiative, and we are glad that the work program includes various studies that will enable us to report this issue to the Interim Committee. We join Mr. Esdar in requesting that the issue of prolonged use of ESAF and the consequences of changes in the ESAF instrument should be taken up in PDR's review of ESAF. This issue seems to have been forgotten during the planning of the evaluation project to be undertaken by external experts.

On the proposed review of the guidelines for the operational budget, I share the views expressed by Mr. Zoccali. The present guidelines represent a delicate compromise. If anything, a change in the guidelines should strengthen the movement toward giving quotas a larger significance in determining members' participation in the operational budget, while giving a smaller weight to the size of their foreign exchange and gold reserves.

We support Mr. Wijnholds' reactions to the paper on nationality distribution and diversity, and in particular his point on the importance of assisting staff members who are trying to find jobs for their spouses.

On the renewed demands for the release of Article IV papers, I tend to share the caution expressed by Mr. Zoccali and others.

Finally, we notice that some Article IV discussions have been scheduled for April. Once more, we would like to warn against overloading the Board's agenda during the weeks preceding the Interim Committee's meetings.

Mr. Daïri made the following statement:

I welcome this discussion on the work program, and I thank the Managing Director for his comprehensive statement. In view of the very heavy workload, the Managing Director's efforts in prioritization are commendable. Since I broadly agree with his proposals, I have only a few comments. On the capital account issue, I note with satisfaction that the Interim Committee has argued in the Declaration on Partnership for Sustainable Growth that careful progress toward increased freedom of capital movements should be conducted through efforts to promote stability and financial soundness. As any proposal for dramatic policy changes in capital account liberalization entails far-reaching implications for developing countries and emerging markets, and given the respective diversity of views among Board members, I propose to focus our attention to consideration of analytical aspects of the capital account liberalization and the role of the Fund, as suggested by Mr. Bernes. The issue of the extension of Fund jurisdiction to capital account transactions could be postponed until the Annual Meetings when the Board may have reached a more unified view hereon.

I welcome the discussion of currency boards and support Mr. Esdar's call for extending its scope to currency pegs and exit strategies. I support the work proposal on the soundness of the banking system and the possible role of governments in restructuring banks and resolving banking problems. Like other Directors, I believe that we need to avoid duplication of work with other international organizations that enjoy more expertise in these areas. I also welcome the proposed paper on Fiscal Rules and Transparency. Enhancing budget transparency by including off-budget transactions and quasi-budgetary operations will improve sustainability of fiscal policies. Like Mr. Bernes and Mr. Al-Tuwaijri, I do not see the need for a comprehensive trade paper. I agree with Mr. Evans and Mr. Esdar that we should concentrate on the effects of trade liberalization on fiscal developments.

On the governance issue, while I endorse its importance, careful attention should be paid to the scope of the study. It is a very sensitive and complex subject, and should be addressed to the extent that it relates to Fund activities and in view of its relevance to macroeconomic policies. I agree with Mr. Al-Tuwaijri that we need, in particular, to protect the cooperative nature of our relations with members. Mrs. Gotz-Kozierkiewicz has rightly emphasized the need to strike the adequate balance between maintaining the rights of sovereign nations and fulfilling the aims stated in the Declaration on Partnership for Sustainable Growth. I propose that this study focus more on the institutional aspects of governance, including efficient and streamlined government, transparent rules, reliable and available data, and a strong and independent judiciary system. On data issues, I support Mr. Autheman's view to charge user fees for the bulletin board. This is the more necessary when we consider giving access not only to the metadata, but to the country data as well.

On quotas, I am concerned by the decline in the share of developing countries, and, in particular, the low-income countries. Therefore I strongly support Mr. Bernes's call for revisiting the Basic Votes. We need to restore the proportion of basic votes in total votes established in 1944 to give credibility to the cooperative nature of Fund relations with members in a globalized world economy. Since this change would require an amendment of the Articles of Agreement, it should be addressed with any other amendment. I look forward to an early completion of the "Quota Review" and the Board consideration of the paper on "New Arrangements to Borrow." I also believe that the Board needs to be informed more frequently about the progress made on negotiating new arrangements.

Turning to the policies on "Use of Fund Resources," the highest priority should be given to the consideration of the ESAF continuation and the HIPC initiative. These include the operational aspects of financing the continuation of ESAF and the Fund's participation in the initiative to assist the most heavily indebted poor countries. I share Mr. Zoccali's reservation regarding the proposed charges on large-scale access, which would be contrary to the concessional character of Fund resources included in the Articles of Agreement and the cooperative nature of the Fund.

I would like to emphasize the importance of addressing the social issues in future work programs. On many occasions, this Board has discussed public pension system reforms and unemployment issues in industrial countries. Similar attention needs to be given to the level and quality of education and health services, poverty alleviation, social safety nets, as well as unemployment in developing countries. It would be also useful to examine how the reform of the pension system could help deepen the financial markets in these countries. I also support Mrs. Gotz-Kozierkiewicz's call for a discussion on Fund's approach to program design.

I welcome the EMU seminar. I concur with Mr. Wijnholds on the usefulness of annual seminars involving outside experts that could enable a broad exchange of views on some important issues. I also support his call for addressing the issue of spouse employment. More generally, I would suggest that the proposed discussion of benefits be extended to include the shortcomings and costs of expatriation.

Mr. Han made the following statement:

At the outset, I would like to join other speakers in commending the staff for their hard work and thank them for presenting to us a comprehensive paper which outlines the tasks we need to accomplish before the next spring meetings. I am particularly appreciative of the Managing Director's efforts in making prioritization and selectivity of the Work Program in front of us. I would like to clarify my points on some items for emphasis.

In the declaration on "Partnership for Sustainable Global Growth," the objective of promoting full participation of all economies, including the low income countries, in the global economy was fully endorsed by the entire membership of the Fund at the last Annual Meetings. Nowadays, the development strategy of individual economies is closely linked to the integration of the world economy. Any fundamental change in an economy will have a direct or indirect effect on the world economy. In all senses, the Fund should discharge its mandate to help its members to solve the problems in their economic development, especially those highly indebted poor countries. With this in mind, due consideration should be given to prompt follow-up actions on the interim ESAF proposal and HIPC initiative, which needs cooperation with other institutions and creditors. I hope that the role of ESAF in the Fund's operations could be further strengthened by the availability of funding and improvement in management.

With regard to the surveillance of the Fund, I appreciate the immense volume of work the Fund has completed since the Mexican crisis in early 1995, and also associate myself with the proposed agenda on surveillance in the Work Program. For the industrial countries, the most urgent issues to be tackled are labor market rigidity and fiscal imbalances which have already impeded economic growth, and will overshadow their future development. And more importantly, these problems have triggered a spill-over effect on the world economy, especially on those developing countries which have close trade relations with the industrial countries. We welcome the Fund's ongoing commitment to strengthen dialogues with the authorities concerned to work out a practical agenda for improving high fiscal deficits and encouraging labor market mobility. For the developing countries, high growth performance in some developing countries will be reviewed in the context of different models of development strategies. I want to stress that such assessments on the development and adjustment policies of the developing economies be given the same weight in the surveillance review. For the countries in transition, the focus of surveillance will be put on the policy issues and potential risks in their economic adjustment. It is worth notice that some countries in transition are doing very well in their economic development, and their performance may be reviewed and taken as a reference for other countries that have similar situations.

I am pleased to note that country matters discussions have become an important part of the surveillance exercise. These discussions are good supplements to the World Economic Outlook and Article IV Consultations. Country matters discussions can provide opportunities for the Board to follow and understand in a timely fashion the economic developments of member countries. However it seems to me, that the present approach to conduct country matters discussions can be improved in order to make it more effective. To my mind the staff is encouraged to continue to prepare background materials and brief the Board on the economic development of the countries concerned on a regular basis, the discussions would spend more time on questions or issues which merit attention. I believe this would help reduce the work load for the Board and also for the staff, and at the same time we can concentrate on the key points in the exercise.

On banking supervision, we welcome with anticipation the paper on issues relating to international banking guidelines. Banking supervision has become increasingly important. When we stress cooperation between the Fund and other institutions, there is also a need for us to define the role of the Fund in this field, so that we can concentrate our efforts on the relevant issues and avoid duplication.

Turning to the Fund's financial resources, the Eleventh General Review of Quotas has been put on the agenda again for Board discussion. In view of the Fund's perspective liquidity position and other factors, we should conclude this review as soon a possible. Before we can do something with the substantial increase of quotas, the calculations on quotas should be adjusted accordingly with respect to the current economic position of individual countries in the world economy. In addition, due to the delays in concluding the Eleventh Quota Review, the data used in the quota calculation should be updated, possibly with the 1995 data.

Experience has taught us that quota reviews are a time-consuming exercise. Therefore a detailed work program for the Eleventh Quota Review should be worked out so that Board meetings can be carried out more effectively and efficiently.

With regard to data issues, I must say that we are pleased with the progress made in the SDDS operation. And I agree with the Managing Director's view that we should now put in place the general standard. I believe that during the time on preparing the paper on the general data standard, it is also a good opportunity to promote further development of statistics work of member countries. We should do our best to help members to meet the requirements of general standards, which certainly help lay a firm foundation for advancement of SDDS.

Finally I would like to raise a technical point. On page 7 of the Work Program, footnote 2, in my mind, it should read something like "includes consultation discussions with Antilles, Aruba, and Hong Kong at the request of respective members." I am concerned about the use of the term "non-members."

In conclusion, let me express again my appreciation for all the hard work the staff has done in arranging the Board work schedule. With joint efforts and mutual understanding, I am sure that the heavy work requested by the Interim Committee will be completed before the next spring meetings.

Mr. Waterman made the following statement:

This is a heavy program. I welcome the Managing Director's paper and listing of priority activities. As discussed before, it would also be useful to set the work program in a broader context of overall work and resource demands on the organization. On the face of it, the Board will be in session in 1997 as much as in 1996 and the staff will be under ongoing pressure; so I would be inclined to subtract (or defer) rather than add to the program.

The second general point I would make is, I believe like Mr. Mesaki and Mr. Toribio that there is room for a more even distribution of work in order to avoid bunching and to improve the quality of Board discussion. The work program after the Interim Committee meetings remains light (some seasonality inevitable). In future, more Board discussions of country items could be scheduled during this period. We should avoid bunching of discussions, especially on policy related issues (some of that in December). We may be able to do more in January/February, relative to December, March/April.

I have the following specific comments:

The spring World Economic Outlook might usefully include a discussion on the deteriorating current account positions of developing countries. There may later be an emerging issue on the sustainability of very fast growth in some of the newly industrializing economies.

I welcome the paper on capital account convertibility. I personally favor capital account liberalization, but believe should be a discussion and agreement on the ongoing role of the Fund in this area before we focus on the detail of changing the Articles.

Sound banking systems are clearly important. But we need to avoid duplication with World Bank and BIS work. It would be useful to have a paper that describes how the Fund is currently handling the financial sector in surveillance activities, the information required for effective surveillance, and an assessment of the availability of such information in member countries. The Fund should be like a good internist: know enough to identify and define problems but leave the detailed work to others. The idea of a joint paper with the Bank is useful (maybe under way)—I took comfort from the Managing Director's comments).

I welcome the papers on fiscal rules and transparency—fiscal policy is central to improving economic performance in many countries.

Governance is a very important but difficult issue as there is scope for improvement in most countries. The extreme cases will be clear, but where you draw any line in seeking/encouraging change is more difficult. I agree it would be useful to review the policies of some of the other multilateral institutions, as well as our own experience in coming to a view on the matter. (Board discussion important to guiding ongoing work.)

The Board devotes a lot of time to country matters. I believe we can (and need to) improve work practices. Specifically, the large and increasing number of country items underscores the need for shorter, but pointed staff reports (and fewer and short Executive Director statements) in order to facilitate and speed up consideration/decisions made thereon. With annual Article IV reviews and greatly improving communications, there are related issues about the length of Article IV missions and size of teams. More generally, it would be useful to have management's thoughts at some point on ways to ease the workload and improve work procedures on a Fund-wide basis. On surveillance, I encourage the staff to continue focusing informal country matters discussions on countries experiencing problems. I would encourage immediate reporting to the Board if there are particularly important developments.

On the Fund's financial resources, the paper reviewing methodology for projecting the Fund's liquidity position could be useful. I would also suggest that any projections on liquidity and financing needs go out a number of years to pick up the scheduled repurchases by Mexico and Russia as well as expected new demands. On the size and distribution of quotas, I agree with some others that we do not need a lot more by way of detailed calculations and it probably makes sense to see if we can progress on this matter informally.

Regarding the SDR: we don't need further detailed work but need to test whether we can reach a consensus on the benchmark and size of the increase better informally.

Like others, I support further work on HIPC debt initiative. The report to the Interim Committee at the 1997 spring meetings on progress could usefully cover the status of potentially eligible countries (particularly early candidates) under the program—my expectation is that one or more cases might have been dealt with by then.

I welcome the ESAF review by the Policy Development and Review Department. I believe it will be useful to give the three external evaluators the chance to comment, even though their own work will be at an early stage.

On the New Arrangements to Borrow—I hope to see a paper soon.

I am sure the staff could prepare an interesting comprehensive Trade Paper but, like others, would give it a much lower priority than other issues.

Mr. Zamani made the following statement:

Being a new member of this Board, I have little to say about the proposed work program. I thank the management for the hard work and its efforts to encompass all the priorities previously identified by members during the recent meetings of the Interim and Development Committees. By reading the Managing Director's statement, I have an impression that a heavy workload is forthcoming, and, therefore, it will be a challenging task for the staff, the management and the Board to deal with all issues that are outlined in the work program, given the current Fund's policy of resource restraint.

Let me now make brief remarks on two issues.

First, I particularly welcome Board's discussion on issues related to capital account, international capital markets, and capital flows to developing countries, as a number of countries under my constituency are now facing the capital inflows dilemma. While Fund's role in promoting capital account liberalization is an important step toward enhancing efficiency of resource allocation, the Fund should not only convince member countries to liberalize the existing capital controls, but also provide adequate guidance on how this could be implemented within the context of maintaining macro-economic stability. Since efforts to broaden the Fund's jurisdiction over capital movements will require an amendment of the Articles of Agreement, I would like to request an early circulation of the papers and Board discussions on these issues in order for us to have ample time to consult our authorities well ahead of the next Interim Committee meeting.

The second point that I wish to raise is on banking supervision and monetary issues. This is indeed an important subject that has been well recognized by the Interim Committee. Admittedly, Fund's concern on macroeconomic stability cannot neglect the dynamism of microeconomic issues such as the soundness of banking system. I notice that last year's Board discussion on this issue has led to the publication of the newly released book "Bank soundness and Macroeconomic Policy" which I found worth reading. While I welcome further staff work on this issue, I would like to underline that the papers should not go too much on microeconomic details, such as the resolution of banking problems, but focus more on the practical issue on how the Fund should strengthen its surveillance over the banking sector in order to promote banking soundness and, hence, macroeconomic stability. Details of the issues which are not a duplication of work done by the World Bank can be incorporated in the background papers for information purpose.

With these remarks, I can endorse the proposed work program.

Mrs. Guti made the following statement:

We commend management's efforts in prioritizing and selecting issues for inclusion in the work program, ensuring an early treatment of fundamental policy issues, particularly those upon which specific mandates were received from the Interim Committee and the Development Committee.

The comprehensive statement on the work program is testimony of the heavy workload that lies ahead. As usual, country-related matters will continue to absorb a great measure of the Executive Board's and the staff's time. However, greater use of the lapse of time procedure, especially when the completion of program reviews has been considered satisfactory by the staff and management, could improve efficiency in the conduct of the Board's business.

Concerning the timetable of Board consideration of policy papers envisaged in the program, there should be an attempt to distribute these papers more evenly over time in order to avoid crowding during certain months of the year. The strengthening of the Fund's surveillance activities has now assumed added importance in light of the new challenges posed by the current global environment characterized by increased market integration. We welcome the suggested analysis of the process of increased integration of developing countries into the world economy and the examination once again of the disparities in growth performance amongst groups of countries.

There is also a need to examine in-depth the factors affecting external sector performance and those impeding a lasting reduction in inflation, particularly in many low income adjusting countries. We should also focus on the impact of the new trade order on the economic performance of these countries. The evaluation intended for economies in transition concerning the obstacles delaying their integration into the global economy should be extended to cover low income countries in order to reverse what many consider to be a growing process of marginalization.

In the context of globalized and more integrated capital markets, strengthening the soundness and stability of the banking systems has become an imperative task to safeguard against unexpected developments in the international capital financial markets. We therefore look forward to discussing the proposed papers on the international banking guidelines and on systematic bank restructuring to reinforce banking supervision. We also welcome the projected devaluation of the experiences with currency board arrangements, which we hope will include a comparative analysis of both the successful and the less successful cases.

On the issue of the Fund's financial resources, we can endorse the proposed program as well as the schedule of discussions. We hope that the next meeting will provide an occasion for the Board to make significant progress toward the conclusion of the Eleventh Review of Quotas, as mandated by the Ministers during the last Interim Committee meeting. We trust that the planned papers will incorporate, among others, proposals to address the problem of the decline of the share in Fund quotas of developing countries. In this connection, it is important to devote special attention to the issue of basic votes as a proportion of total votes, as has already been mentioned. We would, therefore, welcome additional analysis on this topic, with a view to increasing or even restoring the proportion of basic votes to their initial level.

Regarding policies on use of Fund resources, needless to say that we attach special importance to the early implementation of the HIPC Initiative. We hope, therefore, to be able to consider the first HIPC documents prepared jointly with the World Bank by late December 1996 or early January 1997. We are pleased to note the high priority accorded to discussing the papers on the operational issues related to the financing of the ESAF and the HIPC Initiative.

I would also like to say here that, like Mr. Evans, we hope that flexibility can be applied in bringing countries to a decision point. This is certainly the spirit within which discussions on the issue have so far proceeded. We agree with this focus of the planned papers on the review of experience under ESAF-supported programs to be undertaken separately by both the staff and external evaluators. These studies, by drawing extensively on the adjustment experiences of many low income countries, should assist in providing the necessary guidance in the design of future programs, with due consideration given to the pace and sequencing of policy implementation. In this respect, we agree with the proposal to include for discussion the topic regarding Fund policy on program design.

On administrative and budgetary matters, we are in broad agreement with the proposals contained in the Managing Director's statement, and find all the issues to be timely and of relevance. Finally, I just want to say that, on the question of publication, we share the concerns expressed by other Directors, and feel that there is need to move with caution on this issue, given the possible impact of publication on the candidness of Article IV discussions.

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

Mr. Vernikov made the following statement:

At this stage, I shall try to avoid repeating what has been said by previous speakers. In general, I found the work program presented by the Managing Director well focused, balanced, and ambitious. We support the main priorities for the Board's work in the months ahead, particularly with regard to policy issues.

On surveillance, I welcome the importance attached to banking sector problems. I also look forward to reading a paper on currency board arrangements and their implications.

Regarding the Fund's financial resources, I welcome a review of the methodology used to project the Fund's liquidity position.

Among SDR issues, the work program rightly puts forward the need to advance in our approach to implementing the equity allocation endorsed by the Interim Committee.

With respect to administrative matters, this chair has previously given its support to considering a report on recruitment, nationality distribution, and staff diversity. May I also join Mr. Wijnholds in his interest in a review of the Resident Representative program.

On the use of Fund resources, I endorse Mr. Bernes' point related to the implementation of the HIPC Debt Initiative, namely the need to ensure early consultation with all major creditors in the preparation of proposals for eligibility for exceptional assistance.

Finally there is one item in the work program that seems to be taken out of context—I refer to the proposed discussion of charges on large-scale use of the Fund's resources. I agree with what Mr. Zoccali and Mr. Toribio said on this matter. Indeed, the question of adding a premium or surcharge to the rate of charge had been mentioned in the context of the Emergency Financing Mechanism, Currency Stabilization Funds, and the Fund's precautionary balances. May I therefore propose to remove that issue from the December 13 Board agenda and transfer it to where it might belong, for instance within the framework of Board reviews of the system of special charges or of the precautionary balances. Needless to say that, in proposing this, my sole intention is to optimize the work program.

Mr. Yao made the following statement:

I broadly agree with the work program. There is no doubt that the period ahead will be as intense as in the recent past, both in terms of the work load and the complexity of the issues. I am very pleased with the priorities that are set for the work.

My remark will focus on a few issues that are of great concern to my constituencies. The first is on the World Economic Outlook exercise, especially the part on developing countries. I welcome the focus being placed on the issue of integration in the world market and the examination of the factors contributing to divergent growth performance among developing countries. However, we must not forget that many developing countries have been marginalized from world markets. This is an issue that needs to be looked into, and it will be useful if the report could indicate how best these countries could integrate into the world market and derive the maximum benefits while minimizing the risks.

I welcome the paper on data dissemination, especially on general data dissemination, and we do believe that this would help my countries improve their data infrastructure. I support Mr. Autheman's idea to charge user fees on the Internet.

The proposed paper under banking supervision and monetary issues is also appropriate and timely, as developments in the financial market have shown that weak financial systems undermine macroeconomic policies and could also pose a serious risk to others. There is, therefore, a need to understand better the role of the banking system in the transmission of economic policies, and how to strengthen banking and monetary practices. It would be important that the paper addresses those issues, as well as the role that the Fund could play to strengthen the system through its guidance in the area of monetary and prudential policies. Moreover, the rapid changes in the financial markets and their globalization have increased the need for financial discipline for a greater role for the Fund. Therefore, I welcome the paper on capital account convertibility and the role of the Fund.

As you also know, the SDR issue is very important for my member countries. I hope that the staff will also address the issue of the relative decline in the quota share of developing countries, as well as the way to maintain the existing balances in the representation of members and regions of the Executive Board. I also strongly support a paper on the topic of basic votes.

On the issue of transparency and governance, while looking forward to discussing this paper, I would emphasize the need to focus on issues that are related to our primary responsibilities. I expect the staff to cover ways to improve efficiency and accountability in those countries. However, we need to be careful that we do not go beyond our mandate and not create a perception that the Fund intends to impose conditionality in the governance area.

Under regional surveillance, I think this is an area where I may want to ask you to add something, because it would be very interesting for my countries here. The papers on the EMU and experience with Fund-supported programs in Central and Eastern Europe, and the Baltic countries, Russia, and the other countries of the former Soviet Union are relevant, and I look forward to them. However, in view of the increasing effort at regional integration and economic cooperation in Africa, I think it would be instructive and useful to have a staff paper that analyzed the economic policies of this regional African group and see how successful they have been in harmonizing their policies. As you know, in the past, it has not been easy for African countries to group at the regional level, basically because they adopt different policies; some were more or less market oriented and others were more centralized. Now that most of these countries are under Fund programs and that they are all adopting more or less the same market-oriented policies, we would like to see how the effect of these programs on the integration process could be analyzed.

I attach high importance to the paper on the review of experience under ESAF-supported programs, and look forward to a clear analysis and recommendations on a way to reduce existing weaknesses in program design, and also on applying the lessons learned so as to improve program design.

Finally, on administrative matters, I am in agreement with the proposal. I look forward to the discussion of the medium-term budget and the paper on recruitment, nationality distribution, and staff diversity. I agree that this is an issue that merits our attention.

Ms. Srejber made the following statement:

The comprehensive work program proposed in your statement addresses as usual a number of issues of great interest and fundamental importance to this institution. The program is indeed ambitious, and from experience we know that time and resources are scarce, and that some of our goals for the next half year or so will only be reached later. We thus have to establish realistic priorities in order to concentrate our efforts on the most important issues.

This process of making priorities which indeed is difficult might however—as pointed out by some other speakers—be eased if closer ties between the rest of the budget process and the work program were established. Most notably, some indication of needed use of resources for various purposes might shift our priorities toward less costly and more efficient solutions. Furthermore, an improved budgeting system and a better budgeting process—could allow a more decentralized decision-making system, whereby prioritization and resource allocation of nonpolicy issues could be solved outside the Board, whereas the Board could devote more to its attention to strategic discussions and policy issues.

After these general remarks, let me turn to specific comments on the work program. I will start by commenting on some of the surveillance elements.

Surveillance, bilateral as well as multilateral, are core activities in the Fund and I for one believe that the quality of our surveillance has been enhanced during the last year, partly by broadening the scope for our surveillance.

Surveillance is, however, the most resource-demanding function in the Fund, and we must be careful not to expand this function without keeping an eye on the consequences for other important issues. Whenever we thus want to broaden the scope for surveillance, we have to carefully assess the marginal utility of such a broadening against marginal utility of narrowing other areas. And within the area of surveillance itself, I do not see—in the next half year or so—much scope for cashing in any possible efficiency gains. When the budgeting system is improved we can hope for more efficiency gains. Until then, we have to be extremely cautious when assessing new surveillance initiatives.

I welcome the increased focus on financial sector issues that is implied in the work program and, in particular, that these issues will play a more prominent role in the biennial review of the implementation of the Fund's surveillance. However I would like to stress that the Fund's efforts in this area should concentrate on macroeconomic implications of financial sector problems and macroeconomic elements of developments in the financial sector in individual countries. I thus welcome your clarification that the Fund will not devote resources to work on specific international banking guidelines as such guidelines are developed within the Basle Committee framework. Likewise, I am encouraged by your information that work has already started on finding a better functioning cooperation with the World Bank on financial sector issues. I view it as important for the Fund to seek better coordination and working delineation with other international bodies active in this area. However, the Fund could study the possibility of contributing to the dissemination of agreed standards.

Your proposed work on capital flows, capital account issues and international capital markets is a reasonable answer to demand from the Interim Committee. My authorities attach great importance to this work, and believe that a changing global environment might necessitate an amendment of the Articles of Agreement in order to give the Fund jurisdiction to perform proper surveillance over cross border capital flows and international financial transactions. I will shortly come back to questions that might arise if an amendment of the Article is deemed necessary.

Let me first, however, just comment shortly on some other surveillance elements.

I was surprised to see that a comprehensive trade paper, or series of papers on this issue will be prepared for Board discussion. While I certainly agree that trade issues in general are relevant areas of our surveillance, I feel that necessary analytical input for our surveillance, to the extent possible, should be achieved by cooperating with WTO and the World Bank in order to avoid overlap of work. The Fund's work in the trade area should concentrate on Fund-specific trade issues. I look forward to the paper on the pace of liberalization in program design.

I very much welcome your planned work on regional surveillance. However, taking into account our need to economize with our resources, we should be careful not to duplicate work already done or in the process of being done by EU. Thus, the planned paper on progress toward EMU should focus on possible external consequences of the EMU in the context of the international monetary system.

This chair has for some time pointed out the close relationship between good governance and sustainable development. During the Annual Meetings several Governors (including a Governor from my constituency) supported the wording in the IC Declaration by commenting positively on the issue and asking the Fund and the Bank, within their mandate, to strengthen their efforts in these areas. I thus welcome the suggested first documents—to discuss the potential role of the Fund, and to discuss legal aspects of governance under the Fund's Articles—as a reasonable and logical first step in order to follow up the Annual Meetings. I look forward to the discussion, and I expect the issue of corruption to figure prominently in the documents.

Let me now come back to the process of amendment of the Articles. The compromise in the SDR issue requires in itself an amendment. As a review of the Articles and the passing of amendments in national parliaments is a cumbersome process, and it could be helpful with parallelism between the quota issue and the SDR issue, it should be a priority to accelerate the amendment process in order not to unduly delay the implementation of the eleventh quota review. I would also deem it appropriate that we consider whether there are issues in other fields where changes in the Articles of Agreement are clearly needed, and that we, in that case, immediately initiate such work.

One such candidate for further assessment is the system for financing of the costs of the Fund. Of course, inclusion of many candidates for amendments might complicate the amendment process, and unduly delay the completion of the eleventh quota revision, which should be avoided.

As already indicated, I attach high priority to the quota review. The wording indicating the content of the proposed documents seems to imply that we would continue the technical discussions we have primarily had so far. I am not convinced that continued technical discussions would move us so much closer to an agreement, when the matter of substance is a political issue that has to be addressed before substantial improvements can be hoped for. would welcome a discussion on the matter of substance.

> Let me finally welcome your efforts to keep up the momentum in the HIPC Initiative and the ESAF. The paragraph, however, contains an unfortunate formulation that should be changed, namely, that a number of countries have established a track record of adjustment and reform "sufficient to have reached the decision point under the initiative." It is gratifying that countries already are in the process of establishing necessary track records, but I am not aware of any discussion in the Board were we have assessed and agreed on a list containing a number of countries that already now should have reached the decision point. There seems, thus, to exist some confusion regarding the criteria for eligibility to the HIPC Initiative. To my mind it is important that we do not depart from our compromise. I would, however, appreciate a list of the countries the author has in mind for being assessed by the Board in the timeframe of this work program.

The Chairman said that it was not the intention to suggest that countries had already reached their decision points. The Board would consider papers on countries that had established track records sufficient to have reached the decision point. However, the determination as to whether a country had indeed reached the decision point would be made by the Executive Board.

Ms. Srejber considered that that should be stated clearly.

The Chairman asked Ms. Srejber to elaborate on her remark that the Executive Board should devote its attention to strategic discussions and policy issues. He wondered whether she was suggesting that the Board not consider country matters—Article IV consultations and program reviews—but focus only on policy issues.

Ms. Srejber responded that she was not suggesting that the Board cease to discuss country items. There was room for improving work procedures of the Board. The Board tended to discuss in detail a number of issues, when it should instead focus on key policy and strategic issues. Furthermore, proper budgeting of the items in the work program would allow the Board to set priorities based on the resource constraints facing the institution. Without some indication of the costs involved in undertaking the papers mentioned in the Managing Director's work program statement, it was difficult to prioritize the work of the Executive Board. A proper budget estimating costs of the various papers would yield efficiency gains.

The Chairman agreed that there was room for improving the Board's work procedures, and the Secretary and the Dean of the Board were working on that. With respect to cost estimates, he considered that the items on the work program were there because they fell within the mandate of the Fund and because the members expected the institution to address those issues. The Fund could not set its priorities based on the costs of undertaking various studies.

Ms. Srejber remarked that she disagreed that the Fund should undertake studies without some estimate of the costs involved. That did not mean that the Fund should not discharge its surveillance responsibility; but the costs of carrying out certain tasks could influence their decisions.

The Chairman observed that the Fund always strove to improve its allocation of resources. However, there were limits to putting cost considerations above everything else.

The Fund, after all, had to carry out its responsibilities to serve its membership. Moreover, calculating the costs of the studies would be a costly exercise in itself.

Mr. Sivaraman made the following statement:

> I would like to join others in appreciating the exhaustive paper prepared by you but with a formidable agenda.
>
> I will be brief and restrict my comments to only the proposed papers on capital account convertibility and on banking supervision. I think a number of interesting papers have already been prepared on capital account convertibility, the latest being in September 1996. It would be useful if the staff reviews these papers, updates them and avoid duplication.
>
> Second, the staff should examine the anchors which are required to be in place before a country moves toward full capital account convertibility.
>
> Third, the staff should highlight the protective mechanism that is required simultaneously with full capital account convertibility to take care of any shocks to the system—exogenous or endogenous.
>
> Fourth, on the papers on banking supervision, I suggest like Ms Lissakers, that the staff review the banking regulations in force including those required to check money laundering as there is a particular reference to it in the 11th commandment—to borrow Mr Evans's phrase.
>
> Finally, the papers instead of being voluminous could briefly discuss concepts, theories and draw up issues for consideration and decision of the Board.

Mrs. Farid remarked that she agreed with Mr. Vernikov that it would be more appropriate to consider the issue of charges on large-scale use of Fund resources on the occasion of the review of the system of special charges, which was scheduled for April.

The Chairman, referring to the proposed discussion of the Multilateral Agreement on Investment, emphasized that, as that subject was discussed in different fora, it would be useful to make sure that capitals were seeing the issue with its impact on the Articles of Agreement and the way in which the institution discharged its responsibilities.

The Associate Secretary made the following statement:

> There was general agreement that the Managing Director's Work Program has made an effort to propose priorities for the work of the Executive Board in the period ahead, recognizing that many of the issues that the Board has to consider before the spring ministerial meetings have been mandated by the Interim Committee, and many issues have also been raised in the context of the Declaration on Partnership for Sustainable Global Growth. There have been suggestions to add issues to the Work Program, for instance, additional studies, including a review of technical assistance, some proposals to delete

items or to postpone discussion of some, and suggestions for changing the scope of papers.

The Managing Director has mentioned that we are actively working on "work procedures." The objective is not only and not mainly to save time, but to efficiently use time and to achieve better results. We will try to come up soon with a set of proposals that could be discussed with the Dean of the Executive Board, and with the Board. The issues will include the organization of meetings, whether the Board itself should consider all matters, and procedures that could expedite the Board's work. I would suggest that we come back to the issue of work procedures on the basis of an analysis that also draws on previous Board considerations of these matters.

On "bunching," we have recognized that the workload is heavy, with a large number of Article IV consultations mostly on an annual cycle, and with the guidance that Board clearance was a critical element in the surveillance process. We have tried to keep some periods free of country issues. We are trying once again to put on the tentative schedule as many policy issues and as few country items as possible in the two weeks before the Christmas break. "Bunching" has been discussed many times, and the constraints have not changed fundamentally. The main constraint is the periodicity of the Interim Committee and the Annual Meetings. Mandates are given there, and papers then have to be written by the staff.

We have noted the requests made for several studies, in particular by Mr. Toribio, Mr. Yao, and others, too, on labor markets, pension systems, and the effects of integration in African countries. As you noticed, in the Work Program we have tried to take on board requests made at the Managing Director's luncheon with Executive Directors. But, studies will have to be built into a medium-term program. We will come back to the Board separately on the issue of prioritization and proper allocation of resources for the different studies.

On "cost estimates," the Managing Director has already responded to that question. We have been guided in the Work Program by our assessment that cost issues are not mainly—and I do not want to discount the usefulness of cost indications—the objective of a work program. The Work Program is in fact the instrument for the Executive Board on the proper planning of its work during a certain period. The main forum for budget considerations is now the Budget Committee and the medium-term budget outlook, where the priorities of the institution and the allocation of resources are set. Moreover, most topics in the Work Program are the result of the guidance given by the Interim Committee.

Let me go through the different points in the Work Program.

We have noted carefully the different substantive suggestions that have been made on the World Economic Outlook (World Economic Outlook), such as the focus on adjustment policies, capital inflows, and other issues. In particular, we have also noted the point made by Ms. Lissakers on the structure of the World Economic Outlook—a point that was also made in the last discussion of the World Economic Outlook in September—to make a clearer distinction between the analytical policy issues that are covered in the World Economic Outlook papers and the more country-specific and regional analysis.

I believe most speakers would want to maintain the World Economic and Market Developments (WEMD) sessions in the format and with the periodicity that have been developed over time. I would also like to mention that the six-week periodicity is an objective. We have not followed the six-week schedule exactly, but we have tried to be as close as possible.

On the Surveillance Review, the sentence in paragraph 6 of the Work Program, page 3, referring to transparency, "including the possible release of Article IV materials," was included in light of the suggestions made by several Directors at the informal luncheon. But we have also noted the reservations by several Directors today—Mr. Al-Tuwaijri, Mr. Kafka, Mr. Zoccali, Mrs. Guti—to be careful and reminding us again about the recent discussions on this issue and the views that were expressed. When drafting the paper, we will consider these comments and come up with a careful analysis.

Many comments have been made on the issue of banking soundness. Let me mention several points. I should emphasize that the issue is mentioned in two places, the first time under the heading of the Surveillance Review and the second time on Banking Supervision and Monetary Issues, and I think that is quite deliberate and appropriate. There was general agreement that this issue is important and needs to be addressed by the Fund. It was also recognized that the declaration of the Interim Committee specifically refers to it. Several speakers have emphasized the need to distinguish between surveillance and regulatory guidelines per se. The context in which banking soundness is mentioned in the Surveillance Review has to do with the Fund's surveillance role.

As to the papers on international banking guidelines, the intention in the Work Program, when it refers to "take into account the cooperation between the Fund and the Basle Committee on Banking Supervision and the World Bank and other bodies," was to emphasize the need to cooperate on these issues with these other bodies and to avoid duplication. But let me clarify what I have heard, that the Fund should cooperate on these issues, that we should avoid duplication, that there should be a strategy for division of labor, in particular the delineation of tasks between the Fund and the Bank. The BIS was singled out as an important cooperating party. It is the intention of the staff to be in close touch with these institutions on the standards and the guidelines . This will require, however, also certain exchange of information with them so that we could obtain the necessary feedback. Mr. Zoccali also mentioned an important aspect, that is, the early detection of banking problems. We have also noted the references that were made to the budget effects of these new activities, and to human resources, that is, the issue of the qualification and the expertise that the staff will need to develop in this area.

There is general agreement that capital account and convertibility issues are of a high priority. We also have an invitation by the Interim Committee to give it a high priority and to report back to it. I have noted the emphasis expressed by several speakers that a careful and broad analysis of all the issues should be undertaken before considering amendment of the Articles. Several speakers—Mr. Evans, Mr. Bernes, Mr. Al-Tuwaijri, and Mr. Waterman—referred to this aspect. Mr. Daïri, in particular, mentioned that the analysis should not narrowly focus on capital account liberalization or convertibility, but also cover capital flows and their implications. The staff intends to provide a broader analysis of the issues involved, and not only focus on the extension of Fund jurisdiction.

On Multilateral Agreement on Investment (MAI), we plan to place this on the agenda on December 4. A statement made by the Fund staff on the MAI, in the context of the MAI discussions in September, has been circulated to the Board, and we are planning to provide a short update. Why is this on the agenda? One Executive Director had proposed to discuss the earlier statement. Moreover, I should mention that it is not intended that there be a Board discussion of the MAI as a negotiation process, but the relevance of these negotiations for the Fund. The status report and the discussion would provide the basis for Directors to inform their capitals about aspects that are relevant and important for the Fund. The Chairman also emphasized that, as matters are discussed in different fora, it would be useful to make sure that capitals are seeing the issues with their impact on the Articles of Agreement and the way in which this institution discharges its responsibility.

International capital markets: in this context, but not exclusively, we will address the implications of EMU for international capital markets. We have also noted points made by several speakers on issues relating to emerging markets and new financial instruments.

On systemic bank restructuring, the invitation to the staff was to work closely with and not to overlap with the Bank. The Work Program mentions that the paper will also analyze the implications of bank restructuring in Fund-supported programs, but we will have to look at the exact scope of that paper, keeping in mind the comments today.

I am informed that the paper on currency board arrangements is close to completion. I have noted the points made by Mr. Esdar, Mr. Zoccali, Mr. Bernes, and Mr. Wijnholds. Mr. Esdar and Mr. Zoccali focused specifically on some broader issues involved. The paper is in response to earlier requests; there is a discussion of "exit" policies, but there may be a need for follow-up papers to fully address the issues mentioned by Mr. Zoccali and others.

On fiscal and trade issues, the messages here were mixed. While some considered the issue of fiscal rules and transparency as not being of high priority, others supported it, and there appeared to be more support for the papers than not. One Director suggested that we could fold this into the general surveillance paper, others would not want to overload the surveillance paper. I believe there was broad agreement on what is outlined in the Work Program.

The Comprehensive Trade Paper was generally attributed a lower priority, and some Directors thought it could be dropped. The staff will carefully look at the need for the paper, its scope and timing. In any event, several Directors commented that the paper should focus not on trade issues per se, but rather on the relevance of these issues for the Fund. Moreover, it is not the staff's intention to duplicate the work of other institutions.

Mr. Prader has referred to the cooperation between the Fund and the ILO—a subject that is also considered as important by the Chairman of the Interim Committee. We would suggest that a paper on the status of the cooperation between the ILO and the Fund be prepared for the information of the Executive Board ahead of the spring meetings .

On governance, there was general support for considering this topic soon. We have no exact date at this stage. Several Directors commented that duplication should be avoided, that it is not easy in all cases to draw the line with respect to what the Fund can do. Mr. Waterman, Mr. Wijnholds, Mr. Al-Tuwaijri, and Mr. Kafka, in particular, referred to these aspects. The paper is almost ready.

On data issues, there was general agreement with the Work Program statement. The staff has noted the desire to have an analysis of the appropriateness of charging a fee for users or for subscribers to the bulletin board.

On regional surveillance—EMU and international monetary system issues: the Board has noted the conference planned for next year, and Mr. Wijnholds also encouraged us to consider an annual conference on important topics, like this year's SDR conference. On EMU, there was broad support for the outline in the Work Program. I have, however, noted the emphasis by many Directors on the effect on others, the implication of the EMU on capital markets, on the membership as a whole, not just progress toward the EMU, but the effects outside. It is the staff's intention to focus on these issues in the relevant staff papers.

On experience with Fund-supported programs in Central and Eastern Europe and the Baltic countries, Russia, and the other countries of the former Soviet Union, as the Managing Director has already mentioned, this study had been initiated before the evaluation activities in their present specific form were established. I have heard several speakers expressing interest in this topic.

On the issue of country surveillance, I have not much to add. The footnote referred to by Mr. Han had been included several times, and we will look again next time at its appropriate formulation.

We will prepare soon a brief paper on lapse of time consideration of reviews under arrangements. This paper I see as part of the streamlining of work procedures exercise.

On the Fund's financial resources, we are planning the discussion of the quota papers tentatively on December 16. However, there were a number of comments questioning the necessity of these papers. It is the staff's intention to respond to earlier requests for additional work. But we have noted the reminder by several Directors that it is time to focus on reaching a consensus and to come to conclusions on the quota issues. These two objectives may not be exclusive.

On basic votes, several speakers, Mr. Daïri, Mr. Yao, Mr. Bernes, and Mrs. Guti would welcome further analysis and decisions on this in the context of the conclusion of the quota review. There has been a rather extensive staff paper on this issue for an earlier discussion, which was concluded with the decision by the Board to consider the topic again at the time other amendments of the Articles—and I do not think the SDR amendment was the one that was focused on—are considered by the Board. Therefore, I would conclude that interest was expressed to return to the issue at the time of the completion of the quota discussion.

On the New Arrangements to Borrow, as soon as agreement has been finalized, the Board paper would be presented to the Executive Board.

The paper on methodology used to project the Fund's liquidity position is pursuant to earlier requests by the Board. I have noted at least one objection, but the broad majority would seem to favor discussing the paper.

We have tentatively scheduled the discussion on the guidelines for the allocation of currencies under the operational budget, which is mandated to be held before the end of the year for December 2. I have noted, however, that several Directors saw issues of linkages, or made comments with respect to the content of the paper. The linkages were to several issues, that is, to the relevance of this topic in the context of the quota exercise, the income reviews, that there should be a stronger quota element in the operational guidelines, and that, depending on the result of the discussion on the operational guidelines, there could be an effect on the preparedness to consider again the variable norm. I am mentioning all these aspects, while they were expressed by individual Directors.

The next review of the strengthened cooperative strategy on overdue financial obligations to the Fund, which includes the rights approach, is scheduled for early March.

With respect to the SDR issue, I have heard the invitation from several speakers to build on the consensus reached before the Interim Committee soon, and to complete the process on the fourth amendment of the Articles. Regarding Ms. Srejber's point on combining this with other possible amendments, this is an issue of timing, because the Interim Committee has invited the Board to complete this process before the spring meetings. Therefore, we had intended to schedule the discussion rather early, tentatively on December 18. The papers are almost ready, because drafts of the amendment and the commentary were prepared two years ago and need to be updated.

Many comments were made on the ESAF and the HIPC Initiative. I cannot be more precise on the timing of the issues here than is outlined in the paper. I have noted the clear message from all Executive Directors that this has to be given highest priority, that there should be early consultations with other creditors—a point made by several—that there should be close cooperation with the World Bank, and that there is an interest to be informed soon about the progress made in the context of individual country cases that might come to the Board, noting also the Managing Director's caveat with respect to the decisions that will be made at that particular time. In light of this, it is difficult to wait for progress until the ESAF review where issues of strengthening of conditionality will be addressed. But this point will need to be discussed further.

On the question of what we mean by "modalities for special ESAF operations in the Special Disbursement Account," it relates to the special characteristics of the financing provided under the HIPC Initiative from the SDA, specifically, escrowed loans or grants. I have noted Mr. Autheman's point on "the" versus "an" early transfer of resources from the Reserve Account.

On the scope of the ESAF review, Mr. Esdar, supported by Mr. Prader, requested a discussion of prolonged use in the context of that review. While this would not be a separate topic, there would be some discussion of aspects that are relevant to the issue of prolonged use. For instance, the factors affecting progress toward viability, causes of program interruption. Progress on inflation will be addressed in the ESAF review.

We have included a paper on the pace of trade liberalization in the context of program design. We have also noted the interest expressed by several speakers to have a more general review of program design issues, and the timing of such a study will have to be decided.

Large-scale use of Fund resources, midyear review, and safeguards for the Fund in cases of large-scale access, I would make three comments. First, I have noted that some Directors questioned whether the issue of charges on large-scale use should be discussed. Some referred to the divisive nature of the issue. Second, others questioned the timing and the appropriate context of the discussion; that is move, rather than remove, the issue. Third, as to the reason why the paper is mentioned, there was strong interest expressed on earlier occasions to have a discussion of the issue. The paper is available. Taken together with the earlier requests, I would conclude there is interest in discussing the paper. There are two possible contexts in which it could be discussed: the precautionary balances and the safeguards for the Fund in cases of large scale access. We have tried to make the choice in combining the paper with the midyear review of income and with the paper on safeguards. The midyear review of the income position will contain a section on precautionary balances. I would suggest December 13 for discussion of these papers.

The paper on the Fund's policy on external payments arrears and financing assurances is in response to a request by the G-10, in particular. While I heard one or two objections, I believe in general there was agreement that the Fund should address the issue of the arrears policy in the context of the use of Fund resources as planned.

On the forthcoming administrative papers, the word "strategic" could be dropped from the title on the benefits discussion. We have noted the interest expressed by Mr. Wijnholds, and Mr. Prader, but also by others in the paper on recruitment, nationality distribution, and staff diversity, including the issue of spouse employment, which is important in the context of staff employment.

The study on smoking policy is in response to a request from the Board and others, as well. I would suggest that, in light of the comments today, the paper be issued for information instead of lapse of time consideration.

The review of the effectiveness of the Fund's resident representative program was supported by several speakers. We noted the reference made by Mr. Wijnholds to the diplomatic immunities that were provided in the context of a particular agreement that was reached with a member country. I am sure the staff working on the issue of protection of staff have noted this reference very carefully, and we will look at the case and the question of whether this can be duplicated.

Finally, we have also heard the explanation given by Mr. Mesaki on the Japan—Administered Account for Technical Assistance, and, if the Board is agreeable, we would propose the adoption of any changes on a lapse of time basis.

Mr. Prader considered that, while it was not feasible to have "price tags" for all the items in the work program, it should be possible to have an estimate of whether the proposed work program was in line with the budget. The staff routinely drew up estimates of various aspects of member countries' economies, and yet it found it difficult to provide an estimate of the work program. There must be some middle ground between a "hard" budget constraint and a "soft" budget constraint, in his view.

The Chairman stated that the Fund's work program had always been in line with the budget. He could assure the Board that the work program was, and would continue to be, in line with the institution's budgetary resources. Of course, in many areas in the Fund, there was an overload of work. However, providing a cost estimate next to each item on the work program would add considerably to the cost of preparing his statement on the work program and would yield marginal efficiency gains.

Mr. Shields agreed that providing a cost estimate of each item on the work program would be a costly exercise. However, it should not require a great deal of resources to estimate how much staff time—in months—would be involved in preparing the various studies planned in the work program. He agreed with Mr. Prader that it would be useful to have some idea as to whether the current work program was in line with the budget, particularly as there was an overload of work in some areas. Some indication of the costs would also be useful in making decisions about papers that were on the borderline.

The Chairman observed that Executive Directors did not make a decision about whether or not to add or withdraw a particular study based on the costs involved. That decision should be based on whether or not the Board considered that the Fund ought to be working on a particular subject. For instance, some Directors had argued that, in order to avoid duplicating the work of the World Trade Organization, the Fund staff should not prepare a comprehensive trade paper. That, in his view, was a reasonable argument. It would be more appropriate to discuss the costs of the Fund's work in the context of the budget discussions. The work program discussion was an occasion to plan the work of the Board. He did not see how the costs of the Fund's work were relevant to that discussion. After all, the Ministers of the Interim Committee did not factor in the costs of various operations when they called on the Fund to undertake certain tasks.

Mr. Shields remarked that the institution did face a budget constraint in the short run. There were opportunity costs for every paper that was prepared, and in that sense there was a cost to the institution. As responsible Board members, Directors had to take into consideration the costs of undertaking the various studies in making a decision about whether or not a study should be undertaken. The Fund did not have unlimited resources for the staff to prepare papers irrespective of the costs involved.

The Chairman remarked that he could assure Directors that the work program was in line with the budget. The Board should focus on setting the work priorities of the institution and should discuss resource allocations at the time of the budget discussions. The work program and budget were two separate issues and discussion of the former should not involve the latter.

Ms. Srejber said that she disagreed that the work program and the budget were two distinct issues.

Ms. Lissakers observed that the items included in the current work program replaced items that were on the previous work program. As such, unlike Ms. Srejber and Mr. Shields, she did not consider that the work program before them involved additional costs to the institution. Some papers, such as on banking soundness, would entail considerable staff resources. Most of the other studies, however, would be well within their resources.

Mr. Mesaki said that he, too, agreed with the Chairman. It was not appropriate for the Board to engage in micromanagement. He had complete faith in the Chairman's assurance that the work program was in line with available budgetary resources. The Board should only discuss the budgetary implications if the work program was not in line with the budget.

Mr. Sivaraman considered that the Fund like other organizations took into account the work program in drawing up the budget. Thus, the present discussion of the work program should not focus on budgetary aspects. Furthermore, some of the papers were already in an advanced stage of preparation. As most of the papers were being prepared by the Fund staff and not outside experts, he did not see how they could have budgetary implications.

Mr. Mesaki said that the HIPC issue, particularly the timing of the decision point and the issue of strengthening of conditionality should be discussed at a later stage, perhaps in the context of the discussion of the country papers.

The Chairman remarked that the workload for the period ahead was heavy, but he hoped manageable. The Board would be informed as soon as the staffs of the Fund and the Bank had agreed on an appropriate division of work in the area of banking soundness. Management's philosophy was that the Fund would focus only on those areas that fell within the purview of the institution, such as surveillance and the dissemination of banking guidelines, and leave the financing of bank restructuring to the World Bank.

5. ACCESS POLICY—GUIDELINES ON ACCESS LIMITS—REVIEW

The Executive Directors considered a staff paper on the review of access policy and limits under the credit tranches and the Extended Fund Facility (EBS/96/163, 10/21/96).

Mr. Shaalan made the following statement:

> When the annual access limits were last increased from 68 percent to 100 percent of quota in October 1994, the cumulative access which had stood at 300 percent of quota was left unchanged. This chair has on more than one occasion expressed misgivings on maintaining the cumulative access limit unchanged. The access policy in force prior to October 1994 contained an important policy rationale that was totally obviated by the 1994 decision. This rationale was clearly enunciated in the 1983 Chairman's summing-up that forms the basis of the existing guidelines on access, namely that the Fund should adopt a flexible approach to the provision of financial support ..." even though this might prolong the period of use of its resources by a member. This policy approach is implicit in the fact that the cumulative limit allows additional Fund financing even when a member has obtained the maximum possible amount of support for a period of three years." Indeed this is the reason that prior to October 1994 the cumulative access of 300 percent of quota far exceeded the maximum possible annual access for three years (204 percent)—to accommodate a financing need that was clearly spelled out in the aforementioned decision. To my knowledge, this principle has not been explicitly discussed or questioned since it was agreed to in 1983. In view of this, while I can support maintaining the annual access limit unchanged, I cannot support the cumulative access proposal. I therefore do not support the proposed decision.
>
> I am not convinced by the argument that could be put forward, namely that countries with financing needs in excess of the 300 percent cumulative limit could obtain financing under the exceptional circumstances provision. We all know too well that while these exceptional circumstances have never, and in my view rightly so, been defined, they have only been invoked very sparingly and in what I would term crisis situations. I submit that there is a spectrum of financing needs, ranging between the 300 percent cumulative limit and the practices that govern the use of exceptional financing, that is not covered by our present financing policy. It would therefore appear that a more liberal interpretation, than is the case at present, of the exceptional circumstances

governing access to Fund resources, is called for. This is not so much in view of the projected sharp increase in financing needs of the middle income countries during the period 1996-99 since these countries, for the most part, have access to capital markets. Rather, the need for Fund resources for those countries could well increase because of the volatility of capital market flows and the possible sudden shifts in market sentiment. Financial markets are not always rational.

I take note of the staff conclusion on this subject in the paper before us on page 18, paragraph 27, that ..." the existing cumulative limit could likely be constraining in only a few cases, and, in a few of these cases, the constraint might be significant, which could call for consideration of use of under the exceptional circumstances clause." We therefore need to amend our thinking on the application of this clause from the present overly constraining approach in order to accommodate the changing international financial environment.

Finally, on a separate point, I note that the average access for the past year amounted to 41 percent of quota—down from 53 percent in the previous year ending in October 1995. A decline of about 23 percent is substantial, and I would not characterize it as "declining somewhat" as the staff states on page 11, paragraph 17. We need not be reminded that the annual access of 100 percent is not a target we should strive to attain. But surely the annual ceiling of 100 percent bears no relationship to the 41 percent actual average access. Serious consideration should be given to increasing actual average access to support strong programs for those members whose payments records are unblemished.

Mr. Mozhin made the following statement:

I can support the proposed decision to conclude this year's review of access limits under the credit tranches and the EFF without introducing any changes, on the understanding that the Executive Board and the staff will continue to keep this matter under close review. My position is predicated on the staff's updated projections indicating that neither the current annual nor cumulative access limits are likely to be constraining for the Fund's membership (except for one or two members) until the time of the next annual review.

Furthermore, I note that the projected deterioration in the Fund's liquidity position will not prevent the continuation of current access policy and limits in 1997 and, possibly, beyond, provided that the Executive Board fulfills the Interim Committee's request "to do its utmost to reach a conclusion as soon as possible" of the Eleventh General Review of Quotas.

It is also noteworthy that in the period under review the average annual access under the newly approved arrangements declined to 41 percent of quota. This figure would, perhaps, be even somewhat lower had the staff not employed the questionable technique of annualizing Tajikistan's access under a first credit tranche arrangement from the actual 25 percent to 43 percent of quota and Ukraine's access under the Stand-By Arrangement from 60 percent to 80 percent of quota. It would be appropriate to mention in this regard that some Fund arrangements (e.g. EFF with Jamaica) have been repeatedly extended with unchanged access, while under the annualization of access technique, augmentation of excess is presumed while stretching the arrangement's duration to a full year.

As issues of capital account convertibility (and related implications for the Fund of sudden losses of private market financing by members experiencing large capital inflows) advance to the forefront of the Executive Board's agenda in the period ahead, I concur with the general suggestion put forward by Mr. Shaalan in his helpful statement to the effect that the increased volatility of capital flows dictates a need for the Fund to adopt a more flexible access policy under the credit tranches and the EFF.

Moreover, one might question the desirability for the Fund to further keep unchanged in its Articles the long-standing limit on the Fund's cumulative holdings of the purchasing member's currency (at a level equivalent to 200 percent of the member's quota). Perhaps, it might be appropriate to use the opportunity provided by the forthcoming preparatory work on the Fourth Amendment to the Articles for concomitantly amending Article V, Sections 3(b)(iii) and 4.

Such an amendment could be aimed at providing in the future greater flexibility to the Fund in setting the access limits on GRA purchases and, thus, it would obviate the need for granting exceptional circumstances clause waivers each time the projected purchases under the credit tranches and the EFF are to exceed the ceiling mandated by the Articles, even in those rather "non-exceptional" cases, in which the cumulative access does not exceed the higher cumulative limit (e.g. the present limit of 300 percent of quota) established by the Executive Board.

We continue to believe that the presently used approach to projecting future financing needs and assessing the Fund's liquidity position merits fresh consideration by the Executive Board. I look forward to discussing the forthcoming staff paper on this issue fairly soon, and I shall not repeat at this time our past criticisms of the current method.

While I appreciate the use by the staff of the World Economic Outlook country group classification for analytical purposes and the justified attention accorded in the staff paper to the needs of transition economies as a group, I still think that the paper goes a little bit too far in describing the rest of the Fund (or, perhaps, the group of developing countries) as "non-transition economies" (as on p.17). I would have strong reservations about extended use of this new term in future staff papers.

Mr. Mesaki made the following statement:

Since the last review in October 1995, average annual access has fallen to 41 percent of quota as access for the transition economies has been gradually normalized. In addition, the Fund's usable resources are currently adequate and its liquidity position is sufficiently strong. Against this background, I see no urgent need to change the current annual access limit of 100 percent of quota.

On the cumulative access limit, since there are countries that may go beyond the cumulative limit of 300 percent of quota, raising the access limit does not seem inappropriate. If it is really necessary to maintain the current limit, I understand we need to explore the possibility of flexible use of the exceptional circumstances clause. But we should note that flexible use of the exceptional clause would be difficult to carry out because it means that we would be deploying exceptional use of the exceptional clause. Thus, I think it would be better for us to consider raising the cumulative limit very modestly to, say, 330 percent. This figure is just for consideration—I am not strongly attached to it.

I would also suggest that given the Fund's catalytic role, and taking its liquidity position into account, we should consider the higher cumulative limit which I am suggesting as an interim measure, and discuss the issue again when the Eleventh General Review of Quotas becomes effective.

I concur with the staff's assertion that prudent macroeconomic and debt management is needed all the more now that the gross financing need of countries with market access has increased.

In view of this, and the fact that the Fund's liquidity position is on a deteriorating trend, I would like to emphasize the need to complete as early as possible the discussions on the Eleventh Review of Quotas and the New Arrangements to Borrow.

Mr. Sivaraman made the following statement:

At the outset, I would like to compliment the staff for their excellent paper on the review of the access policy. It brings out in detail the implications of the gross financing needs of the past users of funds for the period 1992 to 1999. The projection seems to be based on an assumption that there will be a sharp increase in current account deficit between 1996 and 1999 in the case of large economies with high amortization payments. These countries would be conscious of their growing current account deficits and the imperative need to contain them to sustainable levels. As these countries are economically strong and none of them seem to be having any major crisis on the horizon, they are unlikely to cause any major draft on the Fund's resources during the projected period unless there is an imponderable event. Such a contingency has to be kept in view in the context of the future liquidity of the Fund. Mr. Shaalan has raised an important issue regarding the cumulative access limit and the observation of the staff on the results of their simulations. We share his apprehensions on the volatility of the capital market and uncertainties in market sentiment and the need to be flexible on the exceptional circumstances clause. These possibilities cannot be excluded when more countries move toward full capital account convertibility. I would also like to add that the declining liquidity of the Fund should also not overwhelm us into adopting unduly rigid stance in respect of conditionalities.

Mr. Shields said that he supported the proposed decision and that it was not a cause for concern that average access had declined recently. It was reasonable that there should be only a few programs that were close to the access limits, and the Fund had passed the peak in the special financing needs of transition economies. Nonetheless, as there might be some strong programs in the future, the current annual access limit of 100 percent remained appropriate.

He agreed with the staff that, for countries with good access to capital markets, supply rather than demand factors were more likely to determine the future need for Fund resources, Mr. Shields continued. Previous staff papers on access policy, in any event, had shown that estimates based on calculations of potential demand for financing had tended to be too high. Yet even if the staff were to make estimates based on supply of financing, the Fund should be wary of assuming that high access would automatically be required when financing dried up or reversed in a world of liberalized capital markets. As the Fund's catalytic role remained considerable, existing private sector creditors might have to assume more of the financing burden.

He was not convinced by Mr. Shaalan's arguments for increasing the cumulative access limit, Mr. Shields stated. While Mr. Shaalan had been correct to query the seeming arbitrariness of the current percentage, he had not made the case for changing it or, at least, had not suggested a new percentage—although Mr. Mesaki had suggested an approximate figure. Until the cumulative limit came under pressure, it would be preferable to retain the current limit. However, if the Fund were faced with a choice between invoking the exceptional circumstances clause of the Articles too flexibly or having to reconsider the existing cumulative limit, he would be more willing to consider the latter.

The Chairman recalled that, over the previous decade, the Board had often discussed the issue of how flexible it should be if it were faced with a situation where it might have to invoke the exceptional circumstances clause of the Articles. On many occasions, he had reiterated that exceptional circumstances had to remain genuinely exceptional. If not, the quality of the Fund's management of its resources would suffer, and the benefits of the relatively limited additional financing that could be made available to some countries with a more flexible interpretation of the clause would be far less than the resulting damage to the Fund's overall credibility in managing its resources. The Fund had to be bold when necessary; but it should usually live within its agreed access limits and seek to be as catalytic as possible. The exact percentage limits, which were rounded figures, were arbitrary, to some extent. However, the staff paper indicated that there had not been a sufficient number of cases in which programs had pressured the access limits to justify changing those limits at present. The situation could change, and the Fund would thus have to monitor financial market developments..

Mr. Zoccali made the following statement:

We agree with the staff assessment that there is a growing number of members with potentially large financing needs driven largely by the availability of private capital flows just alluded to by Mr. Shields. Nevertheless, annual gross financing needs are projected to rise noticeably in relation to quota for countries with access to capital markets, and to remain high, or reach even higher levels for some transition economies. Moreover, access to market financing remains volatile and the timing of abrupt changes in market sentiment difficult to predict. During bouts of market instability even countries following sound macroeconomic policies are exposed to unexpected contagion effects. The large segment of the membership that potentially could be affected by such circumstances calls for a flexible response on the part of the Fund to help close members' financing gaps without resorting to measurers destructive of national or international prosperity.

As noted in the staff paper and by earlier speakers, average ex-post access to Fund financing, excluding use under exceptional circumstances, during the last twelve months was significantly lower than in the previous twelve month period. This result confirms that the current annual access limit of 100 percent of quota was neither construed as a target by Management nor as an entitlement by borrowers. Rather, it facilitated the timely implementation of corrective measurers, and reestablishment of access to voluntary medium and long term private market financing, in many cases, faster than expected.

At the same time, we consider that the unchanged cumulative access limit of 300 percent of quota could represent a serious constraint for the restoration of confidence in the future, keeping in mind the substantial spill-over effects that could arise during prolonged periods of market turbulence. While the Fund may approve arrangements providing for use of resources in excess of the cumulative limit in exceptional circumstances, too frequent an activation of the emergency procedure would run counter to its exceptional character. Moreover, the association of a particular member with the need for emergency financing could well aggravate market worries to the point of deepening the crisis. As importantly, the procedure in place can only be triggered ex-post, thus precluding Fund assistance in support of new or existing arrangements to countries committed to sound macroeconomic and structural adjustment policies.

In sum we share the judgment that the annual access limit remains appropriate, but remain unconvinced by the scenario laid out by staff that the existing cumulative access limit could likely be constraining in only a few cases, while leaving sufficient flexibility to deal with individual members' circumstances. If anything, a growing number of countries remain vulnerable to high market volatility and contagion effects that can instantaneously be propagated by integrated financial markets. The Chairman's Summing Up of 1983 with considerations governing amount of access (EBS/83/233) puts the cumulative access limit in its proper perspective, strengthening the conclusion that there is no objective justification for maintaining the current level at 300 percent of quota. Finally, despite the safety margins traditionally built into staff projections of the Fund's liquidity position, this new economic environment, unquestionably calls for a substantial increase in Fund quotas and early conclusion of the Eleventh General Review. Without wishing to belabor the point it, was recognized on that occasion: "that even full implementation of a program or programs may not necessarily guarantee the achievement of the desired balance of payments outcome; moreover, even if the outcome were to turn out to be fully as planned, new problems could arise before repurchases were completed, calling for a supplementary adjustment effort." In such circumstances, it was deemed important for the Fund "to have the flexibility of providing additional financial support, even though this might prolong the period of use of its resources by a member." In addition, it was clearly stated that: "this policy approach is implicit in the fact that the cumulative limit allows additional Fund financing even when a member has obtained the maximum possible amount of support for a period of three years."

Consequently, we join Mr. Shaalan and Mr. Mesaki in calling for a temporary increase in the cumulative access limit, knowing full well that Management would apply it in its usual prudent fashion on a case-by-case basis, primarily guided by the member's balance of payments need, the strength of its adjustment effort and its capacity to repay, to safeguard the revolving character of the Fund's resources.

With respect to countries topping against accumulative access limits, if I understood Mr. Leddy correctly, staff sees ample scope for the Fund to exercise judgment. I would appreciate clarification if ample scope is defined in gross terms or net of repurchases to the Fund.

Mr. Esdar made the following statement:

We share the view that the existing access limits remain appropriate in the present circumstances, and we can go along with the proposed decision.

We agree with staff's conclusion that the Fund's liquidity position remains sufficiently strong to support the continuation of the current access limits over the next year. However, given the projected decrease of the Fund's liquidity position and given that nobody can predict when the next quota increase will come into effect a conservative and cautious lending policy of the Fund is well advised. Therefore, we appreciate that the average annual access has already come down to some degree.

With regard to the potential demand on Fund's resources, it is certainly difficult to make reasonable projections. A mechanistic reference to current account developments or its extrapolation can provide only very limited guidance.

I fully share staff's view that especially for countries with access to private capital markets, the current account is driven importantly by the availability of financing. Insofar current account deficits do not reflect a need but a response to a supply of external financing. This confirms our expectation that in the process of further globalization and liberalization of financial markets the financing role of the Fund should be expected rather to decline than to increase. Since the availability of market financing very much depends on appropriate policies in the countries concerned. The Fund's role will accordingly progressively have to shift from financing to increased surveillance.

Even so, it can certainly not be excluded that members with large financing needs as a consequence of policy slippages and related confidence losses might find themselves quite suddenly confronted with very large financing gaps. But even in such situations the Fund, due to its mandate, is neither in a position nor should it be expected to offset other financing flows or to bail out other creditors.

In limited cases, the "exceptional circumstances" clause provides additional flexibility. By the way, and I fully share your view this possibility should be indeed a very exceptional one and not an occasional one as somewhat misleadingly suggested in the paper. Our temporarily much increased access limits provide sufficient room for adequate financial assistance from the Fund. These limits were established to provide a minimum of protection for the Fund's liquidity position.

Therefore, I do not see a need and cannot support an increase in the cumulative access limits as proposed by Mr. Mesaki and Mr. Shaalan. This position is in line with staff's findings that existing access limit only in a very few cases have constrained Fund involvement.

Mr. Wijnholds made the following statement:

Projecting the financing needs of countries is subject to considerable uncertainty, as the staff readily admits. This is particularly true for countries with easy access to international capital markets. I also feel that there is something of a paradox involved in that countries with adequate access to private external financing, and therefore normally not in need of official financing, are precisely the ones with the highest 'financing needs', as calculated by the staff. The suggestion that the increase in this 'need' is driven by the ample availability of financing strikes me as accurate. All in all, I would tend to see this development as a mixed blessing. Gaining access to international capital markets is a desirable goal for countries, but much depends on how the funds are used, what adjustment policies are followed and in what form the capital inflows take place.

Against the background of changing conditions on financial markets, the backward looking nature of some of the calculations now used by the staff can raise questions. But it is far from easy to develop alternative calculations that are convincing. I can therefore support the maintenance of the annual access limit of 100 percent of quota. In fact I would say that the experience over the last year illustrates on the one hand that this limit provided sufficient room for man oeuvre. With the exception of the EFF for Russia, the highest access was still 20 percent under the ceiling. On the other hand, the relatively modest average access also suggests that the ceiling has not been treated as a target, which could have been an argument for lowering the limit.

I can also accept continuation of the cumulative limit of 300 percent of quota. To those who find the cumulative limit too constraining, I would say that the appropriate answer is not to raise the limit, but to increase quotas substantially. I assume here that we will make progress on quotas rather soon.

As the staff notes, the 300 percent limit is likely to be constraining in only a few cases in the foreseeable future. Where the constraint is significant the exceptional circumstances clause could be invoked. Exceptional circumstances, which as Mr. Shaalan points out have never been defined and perhaps rightly so, should remain truly exceptional and therefore reserved for those rare cases that are not easily captured in existing facilities.

So I agree fully with what you said on exceptional circumstances.

Miss John made the following statement:

Our chair believes that there is a compelling need to strengthen Fund resources so that it would be in a position to respond appropriately to members' needs. Even though staff estimates that the prospective needs of past users are likely to be relatively stable, there is still the possibility that members may need substantial resources from the Fund, given countries' vulnerability to rapid changes in market sentiment. Therefore, the weakening of the Fund's liquidity position needs to be addressed with urgency. Accordingly, we fully endorse the paper's conclusion that the discussions on the Eleventh Review of Quotas and the NAB should to be completed expeditiously.

On the issue of quotas, we remain convinced that a substantial overall increase -around a doubling of the current level is required.

As was expected, both the average annual access and the ratio of access to gross financing needs have fallen in 1995/1996. On the other hand, the simulations prepared by staff indicate that there is no immediate pressure on the existing cumulative limits. However, it is acknowledged that the existing cumulative limits could be constraining in a few cases and that in the more severe situations, there could be recourse to the 'exceptional circumstances' clause. Mr. Shaalan has raised an interesting question in his 'gray' namely, what are the options in the case of a country which would exceed the cumulative limit but does not satisfy the 'exceptional circumstances' clause. Perhaps the staff could give us some views on this matter. If faced with the decision, like Mr. Evans, we would think it preferable to expand the cumulative limit. In any case, we believe that the Fund should apply reasonable flexibility to the provision of financial support. Having said this however, we would be prepared to support the decision to maintain the current access policy and limits for the upcoming year.

Ms. Lissakers made the following statement:

It is interesting that the staff paper for our discussion delivers two different and possibly contradictory messages. The first part of the paper suggests that normal demand for the Fund financing has been declining, as reflected in the smaller absolute size of programs, and that this trend is likely to continue in the near future, although large unforeseeable crises could, of course, occur. The supply side of the paper continues the argument that the Fund liquidity is also declining rapidly and that an early increase in quotas is needed to enable the Fund to meet future financing requirements. The forthcoming paper on the Fund liquidity, I assume, will address the supply side aspects, so I will not dwell on that, and will concentrate the rest of my remarks on the access issue.

The 1994 decision to increase the annual access limit from 68 percent to 100 percent of quota was based on three considerations: first, that balance of payments financing needs were expected to remain large, especially for the transition economies; second, that the Fund could and should play a larger role in meeting balance of payments financing needs, in conjunction with strong adjustment programs; and third, the increase in the annual limit was expected to result, in practice, in larger Fund programs.

The experience in 1995 bore out the expectations, in that both the actual size and the relative share of Fund financing increased. In 1996 we see a partial reversal of this trend. We recognize that the amount of Fund financing will tend to ebb and flow over time, but the staff seems to suggest that a further decline, and a continuing decline, is in the offing. In some sense, the Fund is working itself out of a job. We certainly hope that is true in many countries.

The Fund's efforts to promote sound monetary and fiscal policies, in other words, are bearing fruit. We also have a highly benign market environment. I thought it was quite correct that the paper put the question of balance of payments need in quotation marks, in that one could say, rather, that the highly attractive price of capital is generating a large demand. I think we all need to bear in mind that the highly favorable environment could change if growth in the industrial countries becomes more robust and the rates of return on capital in the industrial countries increase . Obviously, we have a stronger policy climate underlying policies in a number of countries, and that should give rise to a permanent reduction in demand buy those countries and reduce the real need for Fund financing. It certainly appears that the surge in demand for financing for many transition economies is passing and that they will be on a self-sustained and self-financed growth path for the foreseeable future.

Certainly, the potential for future crisis remains large, especially as a growing number of countries rely increasingly on private market financing as well. This reality places a premium on pursuing sound policies to preserve market confidence. The Fund has a continuing role in preventing crisis by promoting such policies. However, the Fund must also be ready and able to deal with the consequences of policy mistakes that will undoubtedly occur in the future and market instability.

We continue to believe, as we did in 1994, that the Fund should play a larger role in meeting balance of payments financing needs than it has in the past, and we do not consider very persuasive the argument that the Fund's resources should be increased substantially to strengthen its liquidity but at the same time it should not use those resources extensively because of fears about potential moral hazard or to preserve the so-called catalytic nature of the Fund financing. One can only conclude from Mr. Esdar's statement, for example, that he does not support a quota increase. It would be incongruous, to say the least, if at the very moment the Fund is seeking additional resources from its members—both NAB and quota increase, I would point out—a perception were to emerge that the Fund is, in fact, reducing its financing role.

As I look at the numbers on page 17, paragraph 22—that is to say that the average access has declined to 38 percent and the Fund's share of gross financing is around 8 or 9 percent—while one understands the reasons for this trend, I wonder whether we are being sufficiently ambitious in some countries, in terms of living up to our own code about the strength of the program generating strength in financing, and, particularly as I look at the structural components of some programs, whether we should not perhaps move closer to the access limits in some cases where governments indicate that they are really willing to take a bold leap in terms of a really ambitious structural adjustment program. That is simply a thought.

We certainly hope that the recent decline in the size of programs does not portend a longer-term trend, unless it is a longer-term trend that is a result of really strong policy performance generating plenty of financing outside the Fund and that the Fund, as I say, will provide financing commensurate with the quality of the program.

On the question of the cumulative limit, it certainly does not look like that cumulative ceiling has been a real constraint on Fund programs to date. But it is also possible that this observation is a self-fulfilling prophecy: that we design programs with the cumulative limit in mind and, therefore, we do not bump up against the ceiling. We have had a couple of occasions where we have gone above the ceiling without really having exceptional circumstances—the Russia program is an example—and others where there is a potential for bumping up against the ceiling. I must say I agree with you that we should be very careful not to debase the exceptional circumstances clause; that we really should use that only in real emergencies.

Basically, I accept the proposed decision, but I have an open mind on the question of a slight modification of the cumulative ceiling, as suggested by Mr. Mesaki. I would like to hear some more staff comments on that. The reason I raise the question concerns the treatment of currency stabilization funds. If we are going to go forward with currency stabilization funds, which would seem to require locking up a substantial pot of money for some extended period of time, the current access limits could lead to lower Fund financing for the rest of the adjustment program than we should be providing.

The Chairman commented that he agreed with many of Ms. Lissakers's concerns. He did not believe, however, that there had been many cases in which the Fund had limited its financing of high-quality, ambitious programs as a result of its existing access limits. Possibly, there might have been cases in which the Fund had overestimated its catalytic impact, resulting in underfinancing of programs. Over the preceding few years—particularly the last year—the Fund had been disappointed in a few cases with donors' contributions, and the relevant programs had been underfinanced in an ex poste sense, but not in an ex ante sense when the programs had been designed. While the Fund would have to be attentive to those issues, he wished to hear other Directors' comments as well.

Mr. Esdar clarified that he supported a quota increase, but the size of the increase would have to be discussed. While it was conceivable, but not likely, that at some distant point in the future members might not need Fund financing, for the time being, too many members had not established sufficiently strong economic policies to gain reasonable access to private capital markets, and thus still required Fund financial support. The Fund's financing role would not be reduced significantly in the years ahead, which made a quota increase necessary.

Ms. Lissakers remarked that she still believed that Mr. Esdar had made, de facto, three persuasive points in his statement against a quota increase. First, he foresaw a long-term trend toward lower demand for Fund resources; second, he believed that the Fund should have only a modest catalytic role in cases in which a Fund-financed adjustment program was needed; and third, that in the event of a liquidity crisis in which markets turned against a member, the Fund should not engage in large-scale financing, but let the markets absorb the resulting losses. Combined, those arguments made it hard for one to conclude that the Fund needed a quota increase, as they implied that there was little role for Fund financing.

Mr. Esdar emphasized that many countries had only limited or no access to international capital markets; thus, for example, many transition economies needed Fund financial support. The Fund should not be expected to offset other financing flows or to bail out other creditors in cases of liquidity crises, otherwise the Fund would introduce a moral hazard. While it should not provide a large percentage of its resources to a few countries in such liquidity crises, the Fund still had a sufficiently large financing role to play to justify a quota increase.

Mr. O'Loghlin remarked that there were several key factors to consider in deciding whether to continue with the current access limits. Perhaps financing needs had changed only for a group of developing countries that had access to capital markets already. Only a very few arrangements that the Board had approved since November 1995 had been at or above two-thirds of the annual access limit; and, barring unforeseen events, only in the case of two members would the 300 percent cumulative access limits pose a potential constraint before the Board reconsidered the limits in a year's time. Even if those cases required more financing than allowed by the access limits, recourse to the exceptional circumstances was an option. Unless and until the Board had deemed it necessary to override the 300 percent limit more frequently than had proved necessary thus far, it would be more appropriate for it to consider invoking the exceptional circumstances clause, if necessary, than to alter a prudential limit that in any event did not often pose as a barrier to Fund financing. He thus supported the current 100 percent annual and 300 percent cumulative limits. He agreed with the staff and Messrs. Mozhin and Esdar, among other speakers, that, while the Fund's liquidity position was sufficiently strong to support the current access limits over the next year, the projected further decline in the liquidity ratio—although uncertain—emphasized the need for progress on the Eleventh Quota Review and the New Arrangements to Borrow.

Mr. Rouai stated that he generally agreed with the staff's analysis of recent experience with access policy. While the staff's comments on countries with "very large financing needs driven largely by the availability of capital flows" were welcome regarding countries pursuing sound macroeconomic policies, he was concerned by the effects on countries that did not have access to substantial private market financing, even when they had sound economic fundamentals. The staff was correct in noting the risks to countries of sudden shifts in market sentiment, and the Fund's surveillance of such countries should be strengthened. The Fund should emphasize to those countries the need for appropriate macroeconomic and debt management policies and for them to design scenarios for rapid financial support, to be implemented in the event of a sudden shift in market sentiment. He reiterated his chair's call for early agreement on a substantial increase in quotas and on a conclusion of the New Arrangements to Borrow.

As there was a large difference between the annual access limit of 100 percent and the annual average access of 41 percent, Mr. Rouai noted, the Fund should provide increased access to countries implementing strong policies. The staff had indicated that the cumulative access limit could constrain the Fund's financing in a few cases. While consideration could be given to invoking the exceptional circumstances clause of the Articles, he could support an increase in the cumulative access limit if such an increase would enable management and staff to deal more flexibly with some cases and safeguard, at the same time, the exceptional nature of the exceptional circumstances clause.

Mr. Joyosumarto made the following statement:

> We generally agree with the staff proposed decision. For the developing countries per se, access to adequate and timely financing is indispensable in their pursuit of sound macroeconomic policies. We are therefore convinced that the Executive Board's decision, in raising the annual access limit to 100 percent of quota from 68 percent in October 1994, has served the interest of the developing countries well during the past two years. Accordingly, we are willing to support the present annual access limits for a full three years extension to October 1997. Having said this, let me give a few comments in this regard.
>
> In the context of the staff's report we believe that there can be circumstances that can put strain on Fund's financial resources while, at the same time, it is appropriate to maintain the present enlarged and advantageous annual access limits. A fall in net bilateral financial flows to developing countries in 1995, though not alarming, nevertheless indicated an uneven receipt of beneficial capital inflows of funds to these countries. In this connection, we are interested to know if this reflects a temporary constraints in the access to capital markets by middle income countries or an occurrence of heavier repayments of borrowing to the Fund and other creditors by the developing countries as a whole. Moreover, if this trend continues in 1996 and beyond, we believe the likely strains on the Fund's resources in 1997 may have been minimized to a certain extent. We shall therefore appreciate the staff to quantify this development.
>
> In case the present trend of growth slow-down experienced in some emerging middle income countries continues to develop, it may also pinpoint the lower access needs of these countries from private capital markets than the staff's overall projection of gross financing needs of past users. As a result, the possibility that these countries reverting to the use of Fund's resources appears slim.
>
> In conclusion, we support the proposed decision.

Mr. Guzmán-Calafell made the following statement:

I agree with the staff's conclusion that the current annual access limits can be considered as broadly appropriate. However, I have a different view regarding cumulative access limits.

The staff projects that gross financing needs of past users of Fund resources will increase sharply during the present decade. The fall 1996 World Economic Outlook estimates that gross financing needs of these countries will rise by 28 percent during the period 1996–1999 vis-à-vis the average observed in 1992–95, with the bulk of this increase being explained by those developing countries with access to international capital markets. The staff notes that the prospective widening of this group's current account deficit reflects in general higher investment rather than an excessive expansion of consumption, and that financing is expected to be mainly long-term. However, the margins of error are substantial. For instance, a year ago the staff projected an increase in the average annual current account deficit of these countries of around 14 percent in the period 1996–1999 with respect to the period 1992–95. The increase is currently estimated at 76 percent.

Furthermore, experience shows that market sentiment, and therefore the availability of financing and the likelihood of shocks from this source, are subject to abrupt changes. Thus, the expected sharp jump in capital flows to these nations will be accompanied by a significant increase in their vulnerability to external shocks. Indeed, the potential demand for Fund financing is increased rather than diminished by these trends. The situation is more worrisome when financing needs are analyzed against the availability of Fund resources. For this group of countries, gross financing needs expressed as a percent of quotas are projected by the staff to climb from around 450 percent in 1991 to more than 600 percent in 1999, with the number of countries with a ratio of more than 1000 percent of quota showing an upward trend.

A logical implication of these developments is of course that the resource base of the Fund has to be increased. This underlines the need to arrive to a prompt conclusion of the Eleventh Review of Quotas and to accelerate the negotiations on the New Arrangements to Borrow. Also, given the above-mentioned trends and the magnitudes involved, it is very likely that demands for access to Fund resources beyond the current limits will be more frequent than before. We must be prepared to respond to these demands. There is clearly a widespread opinion that the exceptional circumstances clause must be reserved for truly exceptional cases. Therefore, I fully agree with Mr. Shaalan, Mr. Mesaki and others that a flexible approach to the provision of financial support by the Fund is required, based on cumulative access limits in excess of the corresponding ceilings on annual access. Thus, I share the view that the current cumulative access limits should be widened.

Even though the projection of gross financing needs is subject to considerable uncertainty, I agree with the staff that a number of factors suggest that the figures referred to above underestimate the strength of the demand for Fund resources. In fact, I am not surprised to see that the projection of gross financing needs of past users of Fund resources considered for this discussion is 29 percent above that presented only a year ago during our previous review of access policy. The staff notes that different ways of anticipating trends in the demand for Fund resources are being explored. I welcome these efforts and I look forward to the paper on this issue to be presented for Board discussion. At this stage, I would only wish to note that the use of econometric techniques with this objective appears to face serious difficulties, since the extrapolation of past trends is unlikely to be a very useful guide to the prospective evolution of constantly changing international capital market conditions.

The paper has some interesting figures regarding the evolution of access in recent years by the different groups of countries. Average annual access under stand by and Extended Arrangements fell from 50 percent of quota in 1995 to 42 percent in 1996. The staff explains this decline mainly as the gradual normalization of access by the transition economies. However, the figure for average access in 1996 appears to be modest. Furthermore, I note that when expressed as a percent of gross financing need, gross Fund financing for nontransition economies has followed a downward trend, from 12 percent in 1991 to 8 percent in 1996. While these figures suggest that the Fund could have erred on the conservative side in providing financial support to member countries in recent years, it is not possible to arrive to a definite conclusion from the figures themselves since, as explained in the paper, access is determined on the basis of the perception of a member's balance of payments need and the strength of its adjustment effort, among other factors.

Nevertheless, I am concerned by one of the main conclusions of our last review of conditionality, namely, that few if any of the Fund-supported programs analyzed in the review shifted to a distinctly rapid pace of economic growth following the implementation of these programs. Obviously, the response of growth to adjustment measures is affected by the interplay of many factors. But it is also true that the availability of external financing, including Fund support, is of central importance among them. While I take note of your remarks in this regard, I believe that we must ask ourselves objectively whether the financial support provided by the Fund to programs of economic adjustment has played a role in these disappointing results, and whether the levels of access observed during the last few years are consistent with the restoration of adequate rates of economic growth among users of Fund resources.

Finally in his useful grey statement, Mr. Mozhin refers to the Article that limits Fund's holdings of a purchasing member's currency to 200 percent of its quota. I share Mr. Mozhin's concern in this regard, since I find a contradiction between this ceiling and the one setting cumulative access limits at 300 percent of quota. In fact, it is my understanding that originally this Article was meant to be consistent with a much lower cumulative access limit. I would like the staff to comment on this apparent inconsistency.

Mr. Prader made the following statement:

The satisfactory experience confirmed by this second review of the increased annual access limits for credit tranches and the Extended Fund Facility proves that the new access limits are fully appropriate. In addition, since cumulative access limits do not ordinarily affect any country's access to Fund resources, it is reasonable to leave them unchanged. I agree with Mr. Wijnholds that the best response to the increased financing demands of member countries is a quota increase rather than a higher cumulative access limit. I can therefore support the proposed decision.

I do wish to comment on some issues raised in the staff paper. These are, first, the implications for the Fund of the fact that many members now have greater access to the private capital markets; and second, the behavior of the Fund's liquidity position and its implications for the Eleventh Quota Review.

Now that many members have greater access to private capital markets, it seems a serious defect that the staff's measurement of members' financing needs omits short-term debt repayments because the relevant data are often unavailable. The importance of short-term debt is one of the obvious lessons of the Mexican crisis. Let us hope that implementation of Special and General Data Dissemination Standards will ensure more general availability of these data. The staff needs to make a point of short-term debt when assessing members' financing needs. A case in point is Argentina, where the staff noted that debt amortization will increase significantly in the period ahead because Argentina is shifting toward shorter-term borrowing to meet its financing needs. Such a shift is worrisome not only for Argentina but for many other countries whose economic situation is still fragile.

The point is that this shift to short-term financing has been made possible by increased access of emerging economies to the private capital markets. Many such countries are now resorting extensively, maybe too extensively, to these markets. The staff notes that it has been necessary to make substantial upward revisions in the projected current account deficits of many middle income countries. However, there is a tendency to forget that private flows are always very sensitive to economic developments.

Recent economic developments have made it more difficult to predict the financing needs of emerging market countries. These developments also have significant consequences for the Fund, some of which have already been accommodated. Surveillance has been strengthened and made more continuous in order to detect and correct policy slippages faster. The Fund has also established an emergency financing mechanism to enable it to act quickly. However, some issues have not yet been resolved. These include the idea of setting up international debt adjustment procedures, the idea of safeguarding Fund resources in cases of very high access, and the idea of special charges for large-scale use of Fund resources. These are important questions, and we look forward to discussing them in the Board. We especially need to clarify what the Fund's role should be "for this small but growing number of member countries with very large financing needs, driven largely by the availability of capital flows."

My second comment concerns the deterioration of the Fund's liquidity position. The trend is once more confirmed by the staff paper, which indicates that the liquidity position could soon begin to constrain the Fund's lending. The impending agreement on New Arrangements to Borrow is not a viable alternative to a quota increase. We therefore repeat our strong support for an early conclusion of the Eleventh Quota Review.

Mr. Han made the following statement:

I would like to join my colleagues in thanking the staff for preparing the document for today's Board discussion. I can be in general agreement with the staff analysis and suggestion that the current annual and cumulative access limits remain appropriate for the time being, it is therefore not an urgent need for the Fund to make any change with its access policy in this review. However, given the profound changes taking place in both the external environment of member countries and liquidity situation with the Fund, I share the concern of Mr. Shaalan in his statement so I think the Fund should be well prepared to adapt itself to live up to the fresh requirements of the world economy. I would like to stress the following two developments for emphasis.

First, as the Fund's liquidity ratio is expected to decline to its lowest level by the end of 1997, given the strong on-going efforts by the member countries in speeding up their pace of structural adjustment, the members' demand for the Fund's usable financial resources could increase well above the level of staff projection. Albeit from the staff projection that the likelihood of requests for the use of the Fund resources has not changed materially since the last review, against the background reinforced efforts on the part of the member countries in restructuring their economies, along with the increasing signs of a divergence in the circumstances of members, it is highly warranted that possible change of access limits should be taken into consideration as members' demand for the Fund's resources increase further.

In this connection, a timely conclusion of the discussions on the Eleventh General Review of the Fund Quotas would provide a necessary financial basis for a consequent adjustment of the access limits.

Second, given the strides made by the Fund in promoting members' external account liberalization, rationalization of access limits should also take into account the extra demand for the Fund resources arising from the need for additional safeguards against external shocks. In view of the volatility of international capital market flows under the possible sudden shifts in market sentiment, as reflected in the use of the Fund resources approved under the exceptional circumstances clauses, the increase of access limits will serve as a better alternative to the growing number of exceptional cases under discretionary judgments, if the increase in actual demand evidenced by growing number of members on the upper end of the current access limits prevails.

In conclusion, while we could support the staff suggestion on maintaining the current access limits to the Fund resources, I would like to encourage the staff to make further studies on the question of possible increase of access limits to be taken in the course of future reviews.

Mrs. Guti made the following statement:

The staff paper notes that the situation governing the likelihood of requests for the use of Fund resources has not changed much since the last review a year ago. However, greater financing needs are expected in the period ahead for both past users and prospective program countries. Even countries experiencing substantial capital inflows have become more vulnerable to market sentiment and, therefore, substantial Fund resources might be needed for these countries in the event of a sudden reduction in the availability of private financing.

In the course of 1996, the Fund's liquidity ratio continued to decline, reflecting strong demand by users of its resources. The ratio is projected fall to 68 percent by end-1997. No doubt, the Fund should preserve sufficient liquidity in order to maintain the confidence of its members by being able to meet possible demands for resources, as well as to satisfy any claims on the GRA by its creditor members. However, like the staff, I am of the view that the expected deterioration in the liquidity position would not prevent the continuation of current access policy and limits in 1997. I therefore, support the proposed decision to retain the prevailing access limits until the next review. However, I also recognize that there may be need to consider the proposal by Mr. Shaalan on cumulative limits, supported by Mr. Mesaki and others.

As there is a need to strengthen Fund resources in the years ahead, given the projected deterioration in the liquidity position, it would be important to reach a conclusion on the Eleventh General Review of Quotas and to conclude the discussion on the new arrangements to borrow.

Mr. Waterman made the following statement:

Things can change, but to us at least both the annual and cumulative limits seem appropriate at present, and provide a reasonable degree of flexibility. I suppose that also reflects our bias that we think the emphasis should be kept on adjustment rather than financing. We do not see much pressure on either the annual or the cumulative limits in the period immediately ahead, and they should not become constraining unless there is no increase in quotas. Like some others, we would want to see stronger evidence of pressure on the 300 percent limit, in particular, before adjusting it.

Mr. Yao made the following statement:

> I agree with the staff that the present annual access limit is appropriate, but I have some reservation about the level of cumulative limit.
>
> My concern about the cumulative limit is due to the fact it seems that financing of Fund program is decided with this ceiling in mind. On page 18 of the staff report, the staff states that if annual access for each member were to equal 40 percent of quota every year, two countries will go above the cumulative limit; with an annual access at 75 percent of quota, five countries will go above the limit, and at 100 percent of quota, eleven countries will find themselves in this situation. I would like the staff to comment whether I am correct on my analysis.

Mr. Coumbis said that he agreed with the staff that there were no special reasons to change the current access limits. However, the staff paper was not as convincing on why the Fund could not, in fact, decrease the access limits.

The staff had projected that the annual average gross financing needs of users of Fund resources in 1996–99 would increase by 28 percent above actual financing in 1992–95, Mr. Coumbis noted. The increase in the financing needs of countries that had access to financial markets and the implied capital flows in those cases, were mostly driven by the availability of finance. A change in market sentiments could reverse capital flows for those countries in some cases, which would affect the demand for Fund financing. Moreover, capital flows had become substantially more variable in the 1990s compared with the 1980s. The practical effect of the latter two points was hard to judge.

The external environment over the next year would be more favorable than in the previous year, as the expansion of the world economy was strengthening, becoming geographically more balanced, and inflation in industrial countries remained low and was falling in transition and developing economies, all of which were good conditions for ensuring stable capital flows to developing countries, Mr. Coumbis observed. Moreover, the strengthening of Fund surveillance had increased authorities' awareness worldwide of the dangers of the reversal of capital flows and of the policy requirements for minimizing that risk.

The staff had indicated that the usual method of estimating financing needs was no longer as reliable as before in projecting trends in the demand for Fund resources, Mr. Coumbis pointed out. Based on econometric research, the staff was exploring new methods for estimating more reliably the demand for Fund financing.

Tables 3, 4, and 5 of the staff paper indicated that average annual access had fallen to 41 percent of quota from 53 percent of quota in October 1995, Mr. Coumbis continued. There was also a clear downward trend in annual access by transition economies, including Russia and Ukraine, which had had the highest annual access. For nontransition economies, the highest rate of annual access had not exceeded 60 percent of quota. Moreover, as of June 30, 1996, the cumulative limit had been exceeded only by Mexico. Even though the annual access limit had been increased in 1994, the staff's simulations—based on various rates of annual access, ranging from 40 percent to 100 percent—showed that, until end-1997, only Argentina would join Mexico above the cumulative limit. Consequently, his authorities did not believe that the cumulative limit should be increased at present, but should be considered at the annual review in 1997. While the Fund could consider invoking the exceptional circumstances clause in genuinely exceptional cases, the evidence thus far indicated that the Fund could, in fact, consider reducing the annual access limit in 1997.

The current access limits had been approved in October 1994, and would be phased out in October 1997, Mr. Coumbis recalled. Taking into account the expected substantial increase in quotas, which his chair supported, his authorities would not be willing to extend the existing access limits beyond October 1997, unless there were strong indications of a substantial worsening of the external environment and/or a reversal of capital flows in countries with systemic importance. In the current environment, there could be no justification for both a quota increase and an extension of present access limits beyond 1997. He agreed with the staff that the projected decline in the Fund's liquidity position would not preclude continuation of current access limits in 1997. The preferable path to take, in addressing the Fund's liquidity situation, was to accelerate discussions on the Eleventh General Review of Quotas and to complete promptly the remaining work on the New Arrangements to Borrow.

He supported the proposed decision, Mr. Coumbis concluded.

Mr. Autheman made the following statement:

I agree that the current annual limit is appropriate, and I find comfort in the great disparity of effective access, which shows that we have made wise use of the new access limit. As for the cumulative limit, I see no urgency to raise it. Like Mr. Wijnholds, I think that a timely quota increase is the best of all possible responses.

I fully support the Chairman's statement that the exceptional circumstances clause must remain exceptional and, therefore, fully disagree with the observation in the staff report, paragraph 27, that if the constraint of cumulative access became significant these "could call for consideration of use under the exceptional circumstances clause."

Finally, in the spirit of compromise, I would be willing to reconsider the option of a small increase of the cumulative limit if this could help reach an agreement on the related issue of introduction of special charges on the large scale— that is, above limit— use of Fund resources.

Ms. Srejber made the following statement:

I agree with the proposal to keep the present annual and cumulative access limits the coming year.

I am not convinced by the arguments by those speakers who would like to increase the cumulative access limit. Like Mr. O'Loghlin, I do not see that the limit appears to be a binding restriction, except in a couple of cases. Also, like Mr. Esdar and Mr. Waterman, I think the emphasis should be on adjustment.

As is well known, I am of the view that the probable development of the Fund's liquidity warrants a timely quota increase.

Ms. Lissakers commented that adjustment and financing were not either/or propositions. In the case of Mexico, whose growth in 1996 would likely exceed 4 percent, a sharp policy adjustment had been combined with ample financing.

Mr. Al-Turki made the following statement:

> I agree with the staff that the overall situation affecting the likely use of Fund resources has not changed materially since the last review. I also agree that the Fund's liquidity position remains sufficiently strong. Therefore, I support the proposed decision of maintaining the annual limit at 100 percent of quota.

Mr. Kaufmann made the following statement:

> At this stage of the discussion, I can concentrate on a few brief remarks:
>
> First, the impact of the global economic outlook and the projected financing needs on the likely use of Fund resources is more and more difficult to assess, because most of the projected increase in financing needs comes from developing countries with access to capital markets, thus suggesting that higher needs are increasingly only reflecting the greater availability of resources. In such a case, the term "needs"becomes misleading and the whole concept of forecasting the use of Fund resources shaky. We are therefore looking forward to the announced staff paper on alternative methods to predict the demand for Fund resources.
>
> Second, we certainly welcome the positive developments as regards transition economies: the fact that now almost all of them have concluded the first phase of the transition process has led to a gradual normalization regarding the annual access for this group of Fund members. This underscores the significant progress most of these countries have achieved through implementing convincing reforms. We note with satisfaction that due to this development the overall average annual access has declined from 53 to 41 percent since our last review of the access policy one year ago.
>
> Third, on the proposed decision: we expect, on the one hand, that the situation in the transition economies further stabilizes and therefore the demand for Fund resources tends to decline. This positive outlook makes the case for maintaining the annual access limits at the present level not airtight. On the other hand, the access limits may not be sufficient to cope with the problems of middle-income countries facing high volatility of capital flows due to changes in financial markets' perception. Thus, all in all, we can agree with the draft decision in EBS/96/163. On the cumulative access limit, like Mr. Waterman, we see no reason to discuss a possible increase to 330 percent (as proposed by Mr. Mesaki) at this moment.

The Deputy Director of the Policy Development and Review Department recalled that when the Board had increased the annual access limit in 1994 (EBM/94/95, 10/24/94), it had focused particularly on the financing needs of transition economies. At that time, the transition economies had been starting to agree to Fund-supported programs requiring potentially higher access to Fund resources during the period in which their adjustment programs took hold, and in which those countries developed relations with other sources of finance. There had been an expectation—largely validated since then—that, while the transition economies' total financing requirements might increase, their need for Fund financing should likely decrease gradually. That gradual decline had been one factor influencing the average access figures.

The staff believed that the current cumulative access limit would not constrain potential Fund financing over the next year, the Deputy Director stated. The current cumulative limit provided the Fund with ample scope to exercise judgment and to provide adequate financial support for the membership, by and large. In any event, the Board would have to review the current proposed decision by October 1997 at the latest, when the annual limit was scheduled to revert to 68 percent of quota. In the 1997 review, the staff intended to examine fundamentally both of the limits, and their interrelationship. While the staff would not be inclined to propose an increase in a limit the moment it appeared to be constraining Fund financing in a particular case—which would raise the question of the limit's purpose in the first place—the limits could be reviewed earlier than October 1997, if there were a sufficient need.

In the case of the Russian Federation, the exceptional circumstances clause had been invoked for the annual access limit, not the cumulative limit, the Deputy Director added.

The issue of the impact of a potential currency stabilization fund on the cumulative access limit was a new one, which staff would consider, the Deputy Director confirmed. It could submit that issue to the Board for consideration at an early stage, if necessary.

The staff had not sought to target average annual access, the Deputy Director emphasized. Average annual access was simply the result of the staff's determination of access on a case-by-case basis, based on program strength, balance of payments need, and the other criteria in the access guidelines. The average depended greatly on the particular mix of countries borrowing from the Fund at any one time. It had also been affected by the declining need of some transition economies for Fund balance of payments financing, as those economies' adjustment efforts had matured. The Fund had approved three small precautionary arrangements over the preceding year, which had also affected the access.

The limit of 200 percent of quota in the Articles was a limit on Fund holdings of a member's currency from any source, the Deputy Director noted. It was a limit on an entitlement provided under the Articles, which the Fund could waive under Article V, Section 4. In individual cases, the Fund was prepared to waive the 200 percent limit on its holdings of a member's currency under the special facilities and the Extended Fund Facility, for example. The waiver served to protect the Fund, as the institution could require, as a condition for granting the waiver, that the member implement additional safeguards.

The annual and cumulative access limits, by contrast, did not apply to currency holdings but to a member's use of Fund credit in the credit tranches and under the Extended Fund Facility, the Deputy Director remarked. Although such credit was subject to the exceptional circumstances clause, the Fund did not have to invoke that clause to issue waivers under Article V, Section 4. Under the Articles, it was not inconsistent for the Fund to specify access limits and, at the same time, to have a general policy allowing the Board to issue waivers.

Mr. Guzmán-Calafell asked whether the 200 percent limit on the Fund's holdings of a member's currency had been intended, originally, to be consistent with a much lower cumulative access limit than the current one. It seemed that access near or above the cumulative limit of 300 percent would imply that the Fund was holding more than 200 percent of a member's currency.

The Deputy Director of the Policy Development and Review Department noted that there was a long legislative history behind the application of the Fund's 200 percent limit on holdings of a member's currency. The 200 percent limit could be—and had been—waived by the Fund on terms that safeguarded its interests.

The Associate Secretary said that the relationship between the 200 percent limit on Fund holdings of a member's currency under the Articles and the cumulative access limit under the Fund's access policies would need a careful analysis. The two provisions had different objectives. Under the Articles, there was no limit on a member's use of Fund resources. The 200 percent referred to in the Articles indicated the extent of members' entitlement to use Fund resources under the conditions of Article V Section 3. At that point, the Fund would decide whether to grant a waiver through a simple majority decision. While the Fund could impose additional conditions when granting the waiver, the commentary on the Second Amendment to the Articles indicated that the Fund would not intend, in practice, to impose such further conditions. In contrast, the cumulative access limit was not a provision in the Articles, but a limit under the Fund's access policies, indicating the extent of access the Fund would be prepared to provide under the credit tranches and the Extended Fund Facility. Moreover, a waiver would still be required, if applicable, in accordance with Article V, Section 6. In explaining the relationship, it would be necessary to review the legislative history, particularly, the situation before the Second Amendment, when the Articles had not yet required fixed repurchase periods.

The Chairman suggested that Mr. Guzmán-Calafell could take the matter up bilaterally with the Treasurer of the Fund.

Mr. Verjbitski clarified that his chair had suggested that, if Article V, Section 3(b)(iii) which specified that a member might not make a purchase if it would cause the Fund's holdings of its currency to exceed 200 percent of quota was obsolete in light of the Fund's changing policies on cumulative access, members should use the opportunity of the Fourth Amendment of the Articles to change Article V, Section 3(b)(iii) and Section 4 (the waiver provision).

The Deputy Director of the Policy Development and Review Department agreed that the suggestion of the Russian Federation's chair could be considered further. Even so, the fact that the cumulative access limit, at any one time, was 300 percent of quota—or 400 percent of quota, for example—did not make sections of Article V obsolete. Article V, Section 3(b)(iii) was a limit on an entitlement of a member, and it provided the Fund with an opportunity—which it had not resorted to often—to require a member to take further measures to safeguard Fund resources. In that sense, the Article remained useful.

The Associate Secretary noted that a clear majority of the Board supported the proposed decision to maintain the current annual and cumulative access limits.

Mr. Verjbitski commented that he supported Mr. Mesaki's suggestion that the cumulative limit be raised to 330 percent of quota. That increase would be helpful to a country that, for example, had accessed 100 percent of its quota under a Stand-By Arrangement and had switched to an Extended Arrangement, and that wished to continue to have reasonable access available under the cumulative limit in the third year of its Extended Arrangement, when it would be repurchasing its drawings under the original Stand-By Arrangement.

The precise access limits, in the final analysis, were merely rounded numbers, dependent on, inter alia, a member's balance of payments need and the strength of its program.

The Chairman commented that at issue was the membership's need for Fund financing, and the need to safeguard the Fund's resources, not the rounding of percentage access limits. The majority of Directors favored maintaining the 100 percent annual access limit and the 300 percent cumulative access limit. Nonetheless, with some good arguments, several Directors had been inclined toward the Fund's raising the cumulative limit somewhat, perhaps by 10 percent, which could not be said to be unreasonable compared with the current limit. The view was held, moreover, that if the Board were to support the creation of a currency stabilization fund, the whole issue of the annual and cumulative access limits should be reviewed in that light. If the circumstances so justified, he would propose a review to the Board. In any event, the Board could come back to the issue of the annual and cumulative access limits before end-1997.

The Fund would seek to ensure in its reviews that the relative proportion of Fund financing vis-à-vis other financing for programs—and the tradeoff between financing and growth—was appropriate, the Chairman remarked. If Fund financing had proved to be too conservative, he was confident that the Fund would adapt its decisions. In the meantime, the majority in the Board favored maintaining the current annual and cumulative access limits and a prompt decision on increasing quotas in the Eleventh General Review of Quotas. The size of the quota increase would have to be discussed.

The Executive Board took the following decision:

1. Pursuant to Decision No. 10181-(92/132) adopted November 3, 1992, and Decision No. 10819-(94/95), adopted October 24, 1994, the Fund has reviewed the guidelines and the limits for access by members to the Fund's General Resources Account under the credit tranches and the Extended Fund Facility, and the decision to increase the annual limit to 100 percent of quota during a period of three years from October 24, 1994, and decides that they remain appropriate in the present circumstances.

2. The next of the annual reviews prescribed by Decision No. 10181-(92/132), adopted November 3, 1992, and by Decision No. 10819-(94/95), adopted October 24, 1994, shall be completed by October 31, 1997. (EBS/96/163, 10/21/96)

Decision No. 11374-(96/102), adopted
November 13, 1996

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/96/101 (11/8/96) and EBM/96/102 (11/13/96).

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAM/96/184 (11/7/96) and by an Assistant to Executive Directors as set forth in EBAM/96/186 (11/7/96) is approved.

7. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/96/113, Supplement 1 (11/8/96) is approved.

APPROVAL: August 14, 1997

REINHARD H. MUNZBERG
Secretary

	Nov. 1996 – Apr. 1997	May–Oct. 1997	Total
	Number of Executive Board Items 1/		
Article IV consultations 2/	87	88	175
Annual arrangements under current Stand-By, EFF, and ESAF Arrangements	12	10	22
Reviews under existing arrangements 3/	53	32	85
Possible requests for new arrangements 3/	29	18	47
Memorandum item:			
Article IV consultations in Nov. 1995–Oct. 1996	—	—	135

1/ Tentative estimates and projections.
2/ Includes consultations with nonmembers.
3/ Includes stand-by, EFF, and ESAF Arrangements.