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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 97/38

2:30 p.m., April 15, 1997

Contents

Decisions Taken Since Previous Board Meeting

Executive Board Attendance

M. Camdessus, Chairman
S. Fischer, First Deputy Managing Director

Executive Directors	**Alternate Executive Directors**
A.A. Al-Tuwaijri	S.M. Al-Turki
M.-A. Autheman	
T.A. Bernes	C.X. O'Loghlin
B. Esdar	W.-D. Donecker
	N. Coumbis
	A. Giustiniani, Temporary
D.Z. Guti	J.P. de Morais
D. Kaeser	
A. Kafka	J. John, Temporary
W. Kiekens	
K. Lissakers	B.S. Newman
	M. Daïri
A.V. Mozhin	
G. O'Donnell	J. Shields
A.S. Shaalan	Y.Y. Mohammed
M.R. Sivaraman	H.B. Disanayaka
E. Srejber	B. Andersen
J.J. Toribio	J. Guzmán-Calafell
E.L. Waterman	
J. de Beaufort Wijnholds	Y.G. Yakusha
K. Yao	
Y. Yoshimura	H. Ono
Zamani, A.G.	S. Joyosumarto
Zhang Z.	
A.G. Zoccali	

R.H. Munzberg, Secretary
W.S. Tseng, Acting Secretary
G. Walton, Assistant

Also Present
African Department: P.A. Acquah, G.G. Johnson. Asia and Pacific Department: R.M. Brooks. European I Department: C. Atkinson. External Relations Department: S.J. Anjaria, Director; G.V. Bhatt, M.E. Hansen, H.P. Puentes, G. Windsperger. Fiscal Affairs Department: M. Cangiano. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; R.C. Baban, H. Cisse, J.L. Hagan. Monetary and Exchange Affairs Department: M. Guitián, Director; M.D. Knight, Deputy Director; P.T. Downes, R.B. Johnston, A.Y. Kyei, B. Laurens, I. Otker, S. Sosa, M.W. Swinburne, T. Yoshimura. Policy Development and Review Department: J.T. Boorman, Director; J. Ferrán, Deputy Director; T. Leddy, Deputy Director; M. Fisher, O. Havrylyshyn, R.B. Kahn, J. Lin, R.H. Nord, S.M. Nsouli, S.K. Wajid. Research Department: M. Mussa, Economic Counsellor and Director; P.B. Clark, G.J. Schinasi. Secretary's Department: K.S. Friedman, P. Gotur. Statistics Department: A. Jimenez de Lucio. Treasurer's Department: S. Backes, F.M. Lakwijk. Office of the Managing Director: J.A. Quick, Personal Assistant. Advisors to Executive Directors: R.F. Cippa, J.A. Costa, S.S. Farid, P.M. Fremann, A. Guennewich, K.M. Heinonen, J. Jonáš, R. Kannan, M.-H. Mahdavian, M.F. Melhem, H. Mori, S. N'guiamba, H. Ogushi, Y. Patel, M. Sobel, L.B.J. van Geest. Assistants to Executive Directors: M.A. Brettschneider, M.A. Brooke, J. Chelsky, M.A. Cilento, H. W. Cocker, D.A.A. Daco, C.K. Duenwald, M. H. Elhage, S. Fukushima, R.J. Heinbuecher, O. Himani, J.K. Honeyfield, Huang X., M. Kell, T.-M. Kudiwu, J.P. Leijdekker, A. Lushin, M.Z. Maatan, J. Mafararikwa, D. Merino, I. Moon, J.A.K. Munthali, L. Pinzani, S. Rouai, V. Trivedi, Zheng H.

1. CAPITAL ACCOUNT CONVERTIBILITY—CONSIDERATION OF POSSIBLE AMENDMENT OF ARTICLES OF AGREEMENT—FURTHER CONSIDERATIONS

The Executive Directors considered a staff paper on further considerations relating to capital account convertibility and a possible amendment of the Articles of Agreement (SM/97/86, 3/25/97).

Mr. Bernes made the following statement:

> My authorities are very supportive of initiatives that are currently under way in a number of fora to liberalize international capital movements. They are also of the view that, given the Fund's near-universal membership and its role in overseeing the international monetary system, it clearly has a vital part to play in this area. However, in deciding on the specifics of the Fund's mandate, they continue to believe that it is essential to have clearly in mind an appropriate division of labor among international organizations and are concerned that the question of how the international architecture could best evolve to meet the overall objective of liberalizing capital movements has not been given adequate consideration.
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> On the question of the appropriate scope for the Fund's mandate they remain open to a range of options and accept the need to include at least some underlying transactions. But they do not believe that this issue can be resolved statically simply by taking as given current mandates and practices with respect to capital account liberalization. In this regard, the staff has noted that, at our earlier discussion of this issue, "most Directors were of the view that the narrow approach would not provide a useful basis for extending Fund jurisdiction over capital movements because of the limitations that have been pointed out...." I concur with this statement, but only if we assume that the Fund acts alone. Were action to be taken in consort with other institutions, as it was on the current account, the net effect would be considerably more than the sum of its parts. I would encourage us to consider this issue more broadly because, regardless of the breadth of the Fund mandate, our ultimate effectiveness will be determined by complementary actions elsewhere.
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> At the same time, I accept the Director of the Policy Development and Review Department's earlier observation that the choice presented by a mandate restricted to payments and transfers versus one encompassing underlying transactions may not be, in the case of the capital account, a useful distinction. I can therefore accept staff's recommendation that "if an allocation of jurisdiction among international organizations were to be envisaged, it should be based on substantive criteria rather than on a distinction between payments and transactions" although I am troubled by the use of the phrase "if an allocation of jurisdiction among international organizations were to be envisaged." Surely the need for such an allocation is not in question. Rather, we should be concerned with finding which allocation is most appropriate.
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> That being said, before delving into the details of approval policies and transitional arrangements (both of which will be essential elements of any

extension of the Fund's mandate in this area), we should concentrate on the articulation of what "substantive criteria" are relevant in guiding the allocation of responsibilities. This will no doubt be a difficult task as can be seen from staff's brief discussion of inward foreign direct investment. In addressing this question, we will need to pay due regard to the comparative advantages of particular institutions and their particular modes of operation in answering questions like what role will there be for a dispute settlement mechanism and who should exercise it? I am also mindful that a number of Directors have argued that if any institution were to have a mandate over the capital account, it should be the Fund. This view troubles me in that it seems to suggest an "either/or" approach to the question of mandate instead of an approach that seeks complementarity of actions between institutions. Quite frankly, if the Fund is to manage the capital account forest, I do believe that it will need help from other institutions in taking care of the trees, particularly if it is to avoid being drawn into the complex web of legalities and other technicalities which permeate any discussion of investment and other capital restrictions.

As we move forward from here, one thing should be clear and that is the need to engage capitals and other international institutions in our deliberations at an early point. This is critical for a number of reasons. First off, there is obvious potential for conflict of interest inherent in having a single institution determine the scope of its own mandate relative to other institutions—what bureaucracy would not prefer to see its own mandate extended relative to others? Second and more importantly, since our overall objective to promote capital account liberalization requires that all players and arrangements, including the Multilateral Agreement on Investment (MAI) and WTO, work collaboratively and in a complementary fashion, it is essential that there is broad acceptance of respective roles. This cannot be achieved through a unilateral assertion of mandate by the Fund over capital movements but will require mutual acceptance of respective jurisdiction if our efforts are not the be undermined by interinstitutional tensions and the twin bureaucratic evils of overlap and duplication.

So where do we go from here? There appears to be a broad consensus on the value of formalizing the Fund's role in the promotion of capital account liberalization through an amendment to its purposes as spelled out in the Articles of Agreement. As well, there is general (but not yet unanimous) agreement on the need to extend the Fund's jurisdiction over at least some capital transactions. But we are not yet at the point where we can usefully contemplate specific amendments. Indeed, I have some concerns that both staff and the Board may be underestimating the extent and subtlety of the capital controls currently in place even among highly industrialized countries. Nevertheless, agreement on the principles I have articulated suggests a clear course of action over the coming months.

A good starting point that substantively moves this process forward is to seek the endorsement of the Interim Committee at the spring meetings for making capital account liberalization an explicit purpose of the Fund and—as a precursor to any further amendments—to seek a mandate for the Fund to formally engage capitals and other institutional players in discussions on the appropriate configuration of responsibilities and an understanding of how the architecture will work together. This will not be an easy process, but it is an essential one if we are to most effectively bring about our mutual objective of capital account liberalization complete with all its multilateral benefits.

Mr. O'Donnell made the following statement:

I would like to thank staff for another clear and helpful paper, which moves the debate forward.

I hope that we will decide to send the following message about general principles to the Interim Committee later this month: that free capital movements bring substantial economic benefits; therefore capital liberalization, with suitably designed safeguards, is desirable; that capital movements have become increasingly central to the international monetary system, and if the Fund is to continue as the "keeper" of the international monetary system, its mandate needs to be changed to reflect the importance of capital flows; that this implies revising Article I to make capital liberalization an explicit purpose of the Fund, but for this to be made effective, the Fund needs to be given explicit jurisdiction over capital movements, both inflows and outflows; and that now is the right time to change the Articles. We need to legitimize fully Fund lending in the face of sudden and large capital outflows, and clarify the Fund's jurisdiction over the capital account with respect to other international organizations and agreements.

It is important at this stage not to get bogged down in details, but I offer below some thoughts on the specific points raised in the latest staff paper.

Regarding the scope of jurisdiction, I agree with staff and other Directors that the "narrow approach" to extending jurisdiction over the capital account would not be appropriate. To be effective, Fund jurisdiction should cover inflows as well as outflows, and should generally apply to underlying transactions as well as the associated payments and transfers, since restrictions are usually placed on underlying transactions. I also endorse the staff's point that other international organizations and agreements have not found the distinction between underlying transactions and payments/transfers helpful in determining the scope of their own jurisdiction and coverage. However, I also recognize the strength of the arguments for excluding from Fund jurisdiction transactions underlying inward direct investment (while including in the Fund's jurisdiction the payments and transfers associated with inward direct investment). It is clear that further consideration will be necessary to define precisely the scope of Fund jurisdiction.

Regarding approval policies, our aim should be to establish an environment where the use of capital controls is neither necessary nor desirable. As financial markets become more sophisticated, controls—particularly those on outflows—will become increasingly ineffective and distortionary. Moreover, capital controls cannot contain fundamental imbalances, or substitute for policies to correct structural problems.

Nevertheless, controls can be appropriate in certain circumstances (for example, for prudential and national security reasons).

In the case of "temporary" restrictions, the potential size and volatility of capital flows puts a premium on flexible approval policies by the Fund. Further down the track, we will need to consider the details of "emergency" approval policies, aiming to strike the right balance between allowing a rapid response and guarding against abuse. For "permanent" exceptions, we agree with staff that the exclusion of inward foreign direct investments will simplify the task. However, we will need to ensure that permanent restrictions for prudential and national security reasons are tightly defined, and not open to misuse.

The Fund's role with respect to transitional arrangements should essentially be to encourage and support its members as they move toward liberalization. Countries should not be forced to liberalize, to move abruptly, or to remove controls before they are ready. I recognize the importance of liberalization being appropriately sequenced with other structural measures, especially in the monetary and financial sectors. Indeed, the Fund is uniquely equipped to advise and support countries on how best to liberalize capital transactions, in the context of other policies and constraints. I agree with the staff that the existing mechanisms of annual consultations, surveillance and technical assistance provide appropriate means for encouraging and implementing capital liberalization.

Naturally, we will need to ensure that transitional arrangements are not used as an excuse for unnecessary delay in the opening up of the capital account. In particular, it will be important to consider how to avoid the delays which have characterized the acceptance of Article VIII status by some member countries. In this context, it is important to keep in mind that restrictions imposed by member countries can and do impose real costs on other member countries.

The process of capital liberalization should, over the medium-term, reduce demands for Fund resources, since it will broaden and deepen access to private sources of capital. As the staff paper notes, the possibility of large unexpected capital outflows raises two important issues to which we will need to direct our attention in the coming months—avoiding moral hazard and designing appropriate Fund policy on lending into arrears.

I hope that the Interim Committee will be able to reach consensus that the Fund's Articles should be changed to include capital liberalization in the purposes of the Fund; and that the Fund should be given the instruments to achieve that goal by extending its jurisdiction over the capital account. The Board and staff could then move forward to formulate specific amendments to the Articles in time for the Annual Meetings.

Finally, given the widespread interest in this issue, I believe it would be helpful to publish, with any necessary editorial changes, the valuable staff papers that were prepared for the seminar.

Mr. Sivaraman made the following statement:

We welcome the paper on further considerations relating to capital account convertibility on a possible amendment of Articles of Agreement.

I do not hesitate to reiterate some of the points which I mentioned in the last meeting which have an important bearing for today's discussion.

There is no doubt that the open and liberal system of capital movement is beneficial and contributes to an efficient allocation of world savings and investments thereby promoting economic growth and efficiency. In this context, the Fund is in a unique position with its universal membership to oversee further work on capital account liberalization. However, this is not an opportune time to put a final stamp of approval on amendments to the Articles as we have to resolve a number of issues before we move in that direction. In this context, I would like to clarify that I am not against amendment of the Articles to enable the Fund to move toward capital account convertibility but there are certain issues and their implications that are not fully understood by us at this stage and hence amendment of Articles should be deferred till we reach a clear position on these issues.

With respect to the issues raised in the paper, my reactions are as follows. With reference to allocation of jurisdiction among various international organizations, it should be based on substantive criteria rather than on a distinction between payments and transactions. Hence, I support the staff view that the Fund's jurisdiction should cover both inflows and outflows and should not be limited to payments and transactions.

While I agree that the Fund could provide useful policy advice to the member countries in determining when temporary imposition of controls provides an appropriate means of controlling surges in capital inflows and outflows, I do not think that the Fund is in a final position to approve such temporary controls which could mean that the Fund impinges on the prerogatives of governments to do what is best to prevent a crisis in their country.

Regarding liberalization of inward direct investment which is the central purpose of many foreign investment agreements and is expected to be covered comprehensively in the proposed MAI, I would suggest that we wait till we have a detailed paper on MAI as suggested. Hence it is too early to conclude that it would not appear appropriate to exclude outward direct investment from the coverage of the amendment.

With respect to temporary approval of restrictions, the staff has suggested an "emergency" approval policy, by which the Fund would agree to approve, on a lapse of time basis, the imposition of controls that members have notified to the Fund; such notifications are to be sent to the Fund within perhaps 10 days after their imposition. Furthermore, they also suggested that such approval would be for a limited time of three months from the date of notification. The rationale used by the staff in determining the period for communicating to the Fund and the currency of temporary approval is not clear to us. In this context, it is important that we cannot have a rigid view on such important matters and adequate flexibility is called for. In the light of the fact that the Fund does not want to take any corresponding obligation to finance any crisis the Fund does not have any moral right to impose any time limit for any controls nor can it have a right to approve a country's controls. The approval or nonapproval lose their importance so long as Fund is not providing any assistance to member countries and they have to correct a volatile outflow by imposing emergency controls. Regrettably, I am not able to support such rigid provisions in the Amendment. If any such rigidity is there, then there has to be an obligation for the Fund which the staff feels is not possible on grounds of moral hazard. Therefore, if any member notifies the Fund of any controls then the Board instead of approving it may note it with comments if any. If the Board does not approve, and the Fund does not support the member in distress on grounds of moral hazard, what does the member do ? There is no consideration of such a situation in the paper. If Fund assumes any obligation to assist a member in such a crisis, then I agree the Fund has a right of approval. I am afraid our decisions on such matters should not be one sided or in a hurry.

While we agree with the staff regarding the need to have transitional arrangements, we equally recognize that these arrangements should not be utilized by members as a means of unnecessarily delaying the acceptance of liberalization obligations under the amendment. As explained in the earlier meetings, we are not clear at this stage about the possible duration of transitional arrangements. In this respect we would like to reiterate that even countries which have moved toward full capital convertibility still continue to have a number of restrictions in the name of administrative reasons or for monitoring purposes. Hence, it is very difficult to determine a priori the period of transitional arrangements.

One may argue that the demand for Fund finance might be reduced once capital liberalization proceeds well but Fund finance accounts only for 10–13 percent of total financing requirements and what kind of changes could be possible in this scenario after the full liberalization process is not clear. While I agree that there is an issue of moral hazard, we must recognize that in the name of moral hazard, we cannot say that the Fund has only the right to approve a member's controls and not assist it. In this respect, a number of small developing countries do not have adequate measure of insurance mechanism nor do they have a free access to international capital markets as even now most of the capital flows only to a few countries which are liberalizing fast. Hence adequate availability of Fund support, not necessarily financial, is very important particularly when any capital flight is due to reasons beyond the control of a member.

I would in conclusion therefore suggest that at this stage, let us not have amendments which introduce rigidity in an area where if we have to achieve the goal of capital account convertibility, initial flexibility is necessary. Therefore, the amendments be made more flexible so that the progress toward capital account convertibility is smooth and voluntary.

Mr. Toribio made the following statement:

There are several reasons that the staff's new paper on "Capital Account Convertibility (SM/97/86)" should be welcome. It responds to the opinion expressed by a majority of directors at the recent Board seminar in favor of discussing substantial issues before dealing with legal matters, such as the proposed amendments of our Articles of Agreement. Second, it in fact addresses all they key issues raised in that seminar or, at least, all those which were covered by the concluding remarks. Third, the paper is short and clear, as staff reports (and, perhaps, this Director's statements) should always be.

Trying to practice that preaching, I will refer to the four issues raised by this new paper briefly and in the same order presented by its authors. First, concerning jurisdiction of the Fund, I am not sure the word jurisdiction is an appropriate term to use in this context. Perhaps "field of interest" or "scope of responsibility" or any other expression of that type could make the whole matter more acceptable to those countries which have already expressed reservations about possible Fund's invasion of their competencies.

But, whatever the semantics we use, I am now more convinced than I was at our past seminar about the virtues of the so-called broad approach, which would extend the Fund's responsibility not only to payments and transfers associated to capital account transactions, but also to the underlying operations which generate those capital movements. In particular, I agree with the staff about the need to allocate "jurisdiction" among different international bodies on the basis of substantive criteria, not on a single difference between payments and underlying transactions.

The Fund's responsibilities may well be defined by its help to remove those capital controls imposed by governments for pure balance of payments reasons or considerations of macroeconomic management.

Under that broad principle, the staff is right in suggesting that inward direct investments should be excluded from the responsibilities of the Fund, since restrictions that affect them are very seldom due to those kind of reasons. Other international organizations may be better prepared to deal with these underlying transactions and to discuss the political factors that affect them.

The staff is also correct to say that we should make an effort to refine the concept of inward direct investments, so as to establish clear limits to their scope and to avoid, if possible, borderline cases that may create conflicts in the future.

The staff also recommend rightly that payments and transfers associated with inward direct investments should, however, fall in the sphere of the Fund, since only balance of payments considerations could explain restrictions applied to them.

For the same reasons, the staff says that outward direct investments should be a part of the Fund's responsibility.

With respect to policies for approval of controls on capital account transactions, I must confess I have mixed feelings, depending on the length of the restrictions that member countries may wish to impose.

Temporary restrictions may well be justified under certain circumstances and it seems logical that—as the staff propose—the Fund may have a mechanism of approval under emergency situations, on a lapse-of time basis. It could be argued that, even in that case, countries should notify in advance to the Fund their intention to establish those temporary measures with a concrete calendar about their application, but one can also understand that exceptional circumstances may advise an immediate enforcement of restrictions with a posteriori notification to the Fund.

But, cases justifying "nontemporary" restrictions are much more difficult to find. Perhaps the staff could explain a little better what is the meaning of the "national security" and/or "prudential" reasons they envisage in their paper. As far as I remember, "national security" has rarely been invoked by any country in imposing capital controls to transactions not related to inward direct investments (some historical occasions in which that happened are not worth remembering, anyway). As for "prudential" reasons, it should be considered that very often the applied measures (like in the case of limits to foreign currency position of banks) cannot even be considered as restrictions to capital movements, but as internal regulations of sound financial practices, whereas investor protection is to be applied, both in the case of international and/or domestic security transactions.

All that should, in my opinion, lead us to conclude that nontemporary restrictions must be subject to more precise definitions and perhaps to a close scrutiny before deciding whether they should be treated as limitations to free capital movements.

I entirely agree with the philosophy of pacing liberalization to the particular circumstances of each country and, at the same time, avoiding that those transitional arrangements may provoke unnecessary delays. The principle seems to be well balanced, although it may also be difficult to apply.

The staff propose a very reasonable solution consisting in an automatic acceptance of all initially existing restrictions and a mechanism to avoid backward steps. Such a strategy was already applied by the OECD in their liberalization code with considerable success.

As the staff suggest, the Fund would promote an orderly and gradual removal of such restrictions through annual consultations and surveillance. However, I would emphasize a little more the critical role the Fund may play by providing technical assistance to those countries who do not know how to establish a new open system or who are understandably worried about the effects of removing restrictions they were already accustomed to use. We should recognize that the short-term advantages of a transition from old control practices to a new free system do not always look obvious to the concerned authorities. Technical assistance to smooth out distortions may facilitate a wider acceptance of the capital account convertibility.

The maintenance or removal of the current restrictions to the use of Fund's general resources to finance capital outflows is an important decision which has been raised in connection with some other issues, like Fund liquidity, revision of quotas, etc.

From my point of view, the question is whether such a restriction has a practical meaning in the world of globalized financial markets we are already living, even if we did not proceed to further liberalize capital accounts.

Most governments are already active borrowers in international capital markets. The short-term funds they raise will easily accumulate if economic data are favorable and will easily fly away when critical circumstances arise. At that moment, the Fund will have to decide whether, by how much, and under which set of conditions, the country in crises merits multilateral assistance. But, once it chooses to help such a country and fixes the volume of resources to be committed, little will be gained my making legal distinctions between the current or capital account, as the source of financial needs and as the destiny of financial assistance.

Crises should be prevented and bad governance penalized but, in my opinion, that is precisely what the Fund does in establishing its conditionality. The simple existence of a legal restriction regarding capital account may help little to these purposes while complicating the solution and adding a new distortion to a scenario which, in the event of a crisis, tends to be already very complex.

Of course, the Fund has to be subject to clear operational and financial limits. The question is whether, in that context, a legal restriction established in 1944 has still the same practical meaning today and whether we are ready to accept that the new financial environment calls for a wider Fund with a larger resource base.

Mr. Esdar made the following statement:

This chair expressed its views in detail during the seminar on February 26. Therefore, today I would like to reiterate only our main points of emphasis which already are reflected in the well-balanced summing up.

Experience as well as economic theory clearly demonstrate the crucial importance of capital market liberalization for economic reform. Countries which have followed this road have convincingly demonstrated how significantly liberalization has contributed to their economic success.

Therefore, we strongly support the suggestion that the Fund should strengthen its efforts in this area. The Fund with its special mandate and its near universal membership seems to be best suited to play a central role in promoting capital market liberalization.

While a more active surveillance role with regard to capital account transactions will certainly make an important contribution, it is also crucial to provide the adequate legal framework for the Fund and to adjust Article VI to the challenges of liberalized and globalized international markets.

We favor the suggestion to base this modification on the so-called "broad approach" covering inflows as well as outflows. Capital restrictions are frequently imposed on the underlying transactions. To focus the Fund's jurisdiction only on the payment side thus could turn out to be ineffective in a significant number of cases. However, close coordination of Fund's responsibilities with other international organizations that have some responsibilities for international capital markets like the WTO, the OECD, the MAI, and the World Bank is crucial to avoid overlapping responsibilities.

While the liberalization of capital movements in general will contribute to improve the economic situation in member countries, it is certainly no panacea. Liberalization will bear its full fruit only if there is an appropriate and conducive macroeconomic and structural environment and especially a sound and competitive banking system which is subject to prudential standards and to an appropriately tight supervision.

Therefore, liberalization at any cost would certainly not be the appropriate approach. The issues of timing and sequencing have to be given careful consideration in each individual case. Transitional rules that provide room for temporary exemptions, for instance in analogy to the approach taken for current account transactions in Article XIV, should help to adequately guide members on their way to full liberalization.

We could also go along with the approach to permit the maintenance of restrictions for reasons that are unrelated to balance-of- payments and macroeconomic management. It would certainly be inconsistent with the Fund's mandate to interfere in this political field which includes social, strategic and security elements. However, we also will have to find ways to prevent the misuse of such exceptional rules and to ensure equal treatment of members. The general approach to grandfather existing restrictions but to prevent any "backsliding" seems to be appropriate.

Let me finally address the consequences of global capital account liberalization for the Fund.

In our interpretation, such a widened perspective is covered by the general mandate of this institution. Therefore, we do not see a change of its general role when adjusting the Articles of Agreement to today's international environment. Also—with regard to its financing role—we do not see a general change.

International and closely interlinked financial markets enforce and support improved policies in participating countries, and as a consequence, reduce the likelihood of possible future crises in the monetary system, thus—at least in the long term—reducing the number of countries in need for exceptional or Fund financing.

This certainly does not preclude the occurrence of cases where countries might be confronted with severe balance-of-payments needs which might—ceteris paribus—be higher than under a less liberalized system. However, I would like to reiterate our view that the Fund's role in reacting to those crises can only be a catalytic one.

Therefore, we support the suggestion that the Fund—as under existing legislation—should be in a position to request—in certain circumstances—the imposition of temporary controls by a member country to prevent the financing of "large and sustained outflows of capital." This would also help to discourage moral hazard.

Mr. Wijnholds made the following statement:

The paper brings us a useful step further in developing a well-balanced Fund jurisdiction over the capital account. During our previous discussion, I noted that an explicit carve-out of the underlying transactions related to foreign direct investment would seem to best fit the traditional role of the Fund. I was happy to see that this is indeed what staff proposes now. After all, the aim of this amendment is to ensure that the Fund continues to be the keeper of the international monetary system. In fact, in this light, I do not see a reason to freeze our discussions on the amendment, in order to first consider the issue of the appropriate division of labor among international organizations. Contrary to some other discussions we have had recently, the capital account amendment is not about finding a new role for the Fund. In my mind, it is about finding new instruments to continue our traditional role.

While I am in general agreement with the staff approach, there is one area on which I would like some further clarification. I note that staff proposes a full mandate over payments and transfers, including where these are associated with inward foreign direct investment. I have some sympathy for this, as restrictions in these areas will generally be imposed for balance of payments reasons. Still, I understand that the MAI covers payments and transfers on inward foreign direct investment as well—so in this sense, the two mandates overlap. Are there cases known to the staff where foreign direct investment is restricted through payments and transfers, and if so, how would the two mandates relate then?

Agreement on the carve-out proposed by staff would provide us with enough material for a substantive report to the Interim Committee. With this, the scope of the amendment would be clearly laid down. After that, the real work starts as we go into more detail. Let me just mention a few areas for further discussion.

First, the paper proposes a carve-out of foreign direct investment only along broad lines. It does not, for instance, propose a definition of foreign direct investment. Neither does it go into the procedures which we need to devise in order to assess whether a members' restrictions fall within this definition. With regard to the definition of foreign direct investment, perhaps some further discussion is needed to see whether there is overlap with the MAI, and to what extent this overlap is fully accounted for in the MAI's balance of payments derogation.

Second, with regard to approval policies, the current paper proposes a lapse of time procedure for the approval of emergency measures. This certainly seems practical to me. At the same time, it goes without saying that any country that needs to avail itself of such emergency capital controls has an imminent problem. It would therefore seem appropriate to expect some kind of follow up discussions after we have approved the emergency measure. I suspect that in many of these cases, consideration could be given to a Fund program.

Third, there clearly is a need for further discussion on the consequences of this amendment for Fund resources and the policies guiding the disbursement of these resources. In this connection I noted Mr. O'Donnell's view that "we need to legitimize fully Fund lending in the face of sudden and large capital outflows." It seems to me that we will have to come back to such questions soon, as they are quite fundamental to the role of the Fund.

The Chairman commented that, like Mr. Wijnholds, at the present stage he saw no major reasons for changing the present rules on disbursing Fund financing. The Fund would need to come back to those questions.

Mr. Wijnholds remarked that, although he did not have a different view on that point, neither did he have yet a firm view on it.

Mr. Esdar said that that was his point as well. The issue of financing into arrears if there were capital outflows needed to be looked into. He wondered whether the existing Articles could give any guidance on that score. The current Articles might help in arriving at a reasonable solution to that problem without the need for major changes, but that was his presumption, not his firm position.

He recalled that Mr. Wijnholds had made another point as well, Mr. Esdar continued, with which he also agreed. If the Board could approve the imposition of capital account restrictions on a lapse of time basis, then there should be the presumption that discussions in the Board would nevertheless follow, to see whether there were fundamental reasons behind the restrictions and whether Fund-supported programs might rather have been the appropriate response.

Mr. Zoccali made the following statement:

As noted during our recent seminar, we find it useful and desirable to explore appropriate modalities for greater Fund involvement in the promotion of capital account convertibility. Liberalization of capital movements, when channeled through sustainable and well-designed capital account regimes are deemed to be generally welfare enhancing, and therefore should figure prominently as part of the Fund's mandate. Moreover, as noted during our seminar on the subject, macroeconomic policy assessments may turn out increasingly inadequate if the implications of the capital account regime, in terms of its sustainability and potential costs for the economy are not fully analyzed. While SM/97/86 attempts to advance on key questions relevant to an Amendment of the Fund's Articles, the more substantive being the scope of its jurisdiction, it is clear that further and a more complete study will be needed before agreeing on approval policies, transitional arrangements and use of Fund resources. Our comments in this regard should therefore be considered preliminary.

Deregulation of the capital account is tantamount to increasing the international mobility of financial assets and to a reallocation of stocks. As this implies for some countries the surrender of key instruments of macroeconomic policy, the political decision associated with liberalization could admittedly be quite difficult. Moreover, while a more deregulated environment in the capital account favor the adoption of appropriate structural policies, in some cases capital inflows have served to delay necessary macroeconomic adjustment with adverse consequences when the inflow ceased or were reversed.

For the reasons mentioned above a widespread consensus with the active participation of our capitals should accompany the design of the approach to be used by the Fund in promoting capital account liberalization. The suggestion of Mr. Kaeser, of allowing countries to voluntarily commit to different levels of convertibility, to avoid backsliding and to cover cases of countries that are neither ready—due to other imbalances or institutional shortcomings—nor fully convinced of advancing capital account liberalization should remain under consideration, if it helps to broaden the consensus regarding the Fund's involvement in this area.

Having said this, we could support extending the Fund's jurisdiction over capital movements under a "broad approach." Restricting the Fund to just payments and transfers would leave out inflows and, as noted by staff, ignore the fact that "most capital controls are imposed on the underlying transactions." At the same time, we consider that "inward direct investment" should be excluded, while preserving for the Fund jurisdiction over associated payments and transfers. Exclusion of restrictions on inward direct investment not related to balance of payments and macroeconomic management would not leave a void, since they would be expected to be covered in the proposed MAI.

While recognizing that the Fund could play a central role in determining when the temporary imposition of controls is appropriate for addressing surges in capital flows, a distinction would be warranted with respect to controls adopted to alter the composition of the capital account and to avoid a significant maturity mismatch between foreign assets and liabilities. Such measures could conceivably merit inclusion under a "no objection" approval policy for prudential reasons. In this respect, it should be kept in mind that small open economies, with a large share of external trade to GDP in particular, may not be able to absorb persistently large movements in their exchange rates or monetary aggregates without major macroeconomic or even social consequences.

Regarding the criteria for temporary approval by the Fund, we agree that these should be specified in policies of the Executive Board. At the same time, such policies should provide for greater flexibility than currently applied for current account restrictions, given the difficulties of defining precisely the duration of the "special circumstances" affecting the member. The very nature of market behavior makes prior approval impractical. Nonetheless, ex-post justification should be required.

Any amendment of the Articles of Agreement that explicitly includes promoting liberalization of capital movements should permit members to avail themselves of transitional arrangements. Reimposition of "grandfathered" restrictions, after their removal, however, should be subject to approval to avoid "backsliding."

The potential size and volatility of liberalized capital flows highlight the need for adequate quota resources. The Fund should be in a position to meet an increased demand for financing to allow one or more members sufficient time for corrective actions to take hold. As moral hazard considerations apply, this issue requires careful analysis and we look forward to the paper reviewing the Fund's policy on external payments arrears to private creditors.

Finally, it is clear that the effectiveness of the Fund's effort to foster capital account liberalization will require close coordination to ensure the complementarity of ongoing actions elsewhere, in order to avoid deviating from its own specialized mandate of facilitating orderly financial market conditions while giving confidence to its members.

Mr. Kaeser requested that the staff provide the Board with information about the Multilateral Agreement on Investment (MAI).

The staff representative from the Monetary and Exchange Affairs Department explained that, on the preceding day, he had attended the MAI meetings in Paris on the balance of payments safeguard provision in the MAI. The discussion had focused in particular on the role of the Fund in an MAI safeguard provision. A number of delegations had been of the view that the Fund should take the principal role in determining when a safeguard provision should be applied in the MAI, both for restrictions under its current jurisdiction and for temporary controls on capital movements. The matter was still under discussion. A draft had been prepared, but there were still a number of questions outstanding, and the issue would have to be addressed again at a forthcoming meeting.

The Chairman commented that such a view appeared to be reasonably in line with Executive Board's view of the Fund's responsibilities in that area.

The General Counsel added that it had been his impression that, at least if a particular restriction were approved by the Fund for balance of payments reasons, that approval would be accepted by the MAI. That would solve the problem of overlap or duplication of jurisdiction.

The staff representative from the Monetary and Exchange Affairs Department replied that that impression was correct, but that the draft went beyond measures that were presently under the Fund's jurisdiction, to include a request by the MAI to the Fund to look at measures on capital movements as well. Therefore, it would include not only measures under the Fund's present jurisdiction on current international transactions, but also measures related to the introduction of temporary controls on capital movements.

The Chairman remarked that it therefore appeared that the MAI would recommend an approach that the Fund had already suggested; that was encouraging.

Mr. Giustiniani made the following statement:

> Ensuring capital account convertibility for all its members is a very desirable objective for the Fund, and one whose time has come. However, like all important changes in the mandates of key institutions, amendments of the Articles of Agreement require thorough and careful examination by the membership. The possible revisions should not represent a departure from the existing architecture of the Articles, but rather a complement to it.
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> We should recognize that, so far, the process of financial liberalization has been essentially a market-led one. Countries themselves have recognized the need for removing restrictions on capital flows in order to reap the benefits of a better allocation of international savings. In other words, the establishment of capital account convertibility has deep roots at home. In my opinion, in amending the Fund's Articles of Agreement, adequate consideration should be given to this element. Therefore, while I believe it would be appropriate to consider an amendment in order to recognize explicitly that one of the general purposes of the Fund is to ensure progress toward full currency convertibility, I am still not completely convinced that capital account convertibility should become a member's general obligation under Article VIII.
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> Even though it is premature to consider specific amendments to the Articles—and in this regard, I share Mr. Bernes's concerns, and I agree with his proposed course of action—nevertheless, I wonder whether, in order to make capital account liberalization a special purpose of the Fund, the staff deems it sufficient to revise Article I and probably also Article VI, or whether, in its view, the process of revision should go any further.
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> In defining the limits of the Fund's jurisdiction, or, better, the Fund's responsibility, in the last seminar, we were in favor of what has been called a narrow approach, although modified in order to avoid the asymmetry between payments and receipts. We still consider that approach the most viable one, for reasons not only theoretical—namely, that matters of stability should be kept separate from those of efficiency—but also practical, namely, that the extension of the Fund's jurisdiction to the underlying capital transaction would entail a lengthy negotiation on the definition of several normative and procedural aspects, such as the type of transaction considered, the duration of

possible transition arrangements, the establishment of procedures, and so forth. However, should an agreement on a broader approach prevail, I believe that the role of the Fund in this domain should be a matter of broader discussion among the Fund, the capitals, and the other institutions in order to find the right balance of power between the different players.

Turning to a specific issue raised by the present paper, I would like to ask the staff for further clarification on the issue of approval policies. If I have understood correctly, according to Article VIII, Section 2(b), restrictions on current payments imposed by a member country on current payments and approved by the Fund are not subject to court challenge in the member countries. Therefore, for symmetry, I think the same result is expected to be valid in the case of restrictions on capital flows approved by the Fund. However, in the case of a liquidity crisis, a sovereign borrower may impose restrictions on capital outflows, which would represent, de facto, a standstill with regard to its debt service obligation. Does the Fund not risk getting more involved in problems of some borrowers' debt work-out procedure, and do we not risk gradually transforming the Fund into an international bankruptcy court, as proposed by Professor Jeffrey Sachs a few years ago? Two years ago, in the aftermath of the Mexico crisis, many proposals were made about debt work-out procedures. One proposal put forward by Professor Sachs was to extend to the international level what is currently embodied in Chapters 9 and 11 of the U.S. Federal Bankruptcy Code. This was related to what is probably considered as a standstill procedure under Article VIII, Section 2(b). His proposal was that, at the beginning of a work-out procedure, there should be a sort of standstill sanctioned by the Fund. I thus wonder whether, in the context of a restriction on capital movements that has been approved by the Fund, we are not moving in the same direction.

Miss John made the following statement:

The views of our chair on this topic remain as expressed in the recent seminar, so that I would just briefly restate them as they pertain to the specific issues raised in the paper.

First, we believe that insofar as any entity's formal jurisdiction over capital movements is to be extended, it should be the Fund's rather than that of any other international organization. At the same time, any extension of the Fund's jurisdiction should be compatible with its responsibility for maintenance of a sound international monetary system. This approach, we believe, would give due recognition to the responsibilities of other institutions and agreements. With regard to the types of capital activities that may fall under the umbrella of the Fund, we feel that it would be difficult to exclude underlying transactions—or, at least, certain of them—and that some inflows may also need to be included. But this matter will require extremely careful consideration by the Board.

Secondly, recognizing the greater volatility and size of capital movements, the Fund's authority with respect to the granting of approvals of restrictions would need to be far more flexible than pertains to current payments and transfers. Where countries find it necessary to impose restrictions for reasons such as national security and prudential considerations, their notification to the Fund would be as much as could be reasonably expected.

Thirdly, as was stressed at the seminar, it would be necessary to sequence the liberalization of capital accounts within a comprehensive structural reform, which necessarily must be country-specific. Therefore, we agree that it would be important for the Fund to establish transitional arrangements.

Finally, with regard to the use of Fund resources, it is quite conceivable that developments in the capital markets could have such significance for the international monetary system that there is a greater demand for Fund resources. The paper raises an important issue regarding the possibility of the development of arrears where the extent of adjustment and the amount of financing required are greater than can be delivered. We would need to consider this issue more fully in the context of the Fund's policy in arrears situations and we look forward to the forthcoming staff paper on this issue.

Mr. Waterman made the following statement:

We support efforts to promote capital account liberalization and welcome the progress made since Board seminar as reflected in the staff paper.

Most of us recognize the potential benefits flowing from greater capital mobility. For its part, the Fund has a key role to play in promoting sound capital account liberalization—i.e., ensuring that liberalization is backed up by appropriate macroeconomic policies and sound financial sector. It is important to push for unnecessary capital controls to be eliminated, but it is also important to have the necessary domestic reforms in place to reduce the costs that can be associated with greater openness to capital flows; the position of the banking system is particularly important but so are the broader macro settings and the performance of the economy. I know that when Australia liberalized in the 1980s, some of the costs experienced were because, first, the liberalization had taken place in an environment of a relatively high rate of inflation and, second, because the importance of strengthening the prudential oversight of the banking system was misjudged.

The broad approach outlined in the staff paper regarding Fund's jurisdiction seems sensible (i.e., Fund has broad jurisdiction over inflows and outflows, with the exception of the underlying transactions inward foreign direct investment). But the detail could be very important when we come to flesh out policy in this area. Mr Bernes makes a good point on the need to cooperate with other institutions. Clearly we are better off establishing cooperative arrangements with other relevant institutions earlier rather than later. We know from our experience with WTO-Fund cooperative agreement that these things can be difficult, even if Fund's mandate seems quite well defined.

Obviously much more work needs to be done on many of the issues involved—including the implications for use of Fund resources and conditionality, the definition of foreign direct investment, the nature of temporary restrictions and transitional arrangements and so on.

This is not the stage where we should get into much detail, but I would like to make a couple of points on some more specific elements.

In terms of temporary approval of restrictions, there is an issue as to how flexible we should be but there is also a more important issue of the policy the Fund might require to address the underlying cause of the imbalance. We will also need to look at the modalities of the staff proposal for lapse-of-time approval, including what to do in cases of repeated recourse to temporary measures.

On the definition of foreign direct investment transactions, like Mr Bernes, I suspect we will soon discover the extent and subtlety of capital controls that impact on foreign direct investment. Without going into detail, there are also issues as to how the policy would handle limits placed on aggregate foreign investment in a sector that would not necessarily result in foreign control.

Capital account liberalization should reduce the demand for Fund resources in time, but we can't rule out transitional problems (which may be significant) for some members. We need to think through the role the Fund might play in the event of large capital outflows and how that can be achieved without sending the wrong signals to both members who stand to benefit from greater capital flows and foreign investors (particularly lenders). But in a sense, we are already grappling with those issues in a world of greatly-increased capital flows because the sustainability of some current account deficits depends importantly on the stability of such flows.

Finally, like Mr O'Donnell, I'm attracted to the idea of setting out the general principles we can agree to in the message that we send to the Interim Committee.

Mr. Andersen made the following statement:

I spelled out in more detail the views of this chair at our Board Seminar and, as we are in broad agreement with the staff's suggestions as set out in the well-balanced paper, I can be brief.

We believe that the time is ripe for amending the Fund's Articles in order to bring them into line with the Fund's actual practice as well as to help the Fund discharge more effectively its mandate of overseeing the international monetary system. As just touched upon by Mr. Waterman, on the message we should send to the Interim Committee in seeking further guidance, I can associate myself with the four general principles Mr. O'Donnell has listed in the second paragraph of his statement.

There are still many operational aspects of an expanded mandate that need to be addressed, which staff rightly notes by not claiming that at this point the analysis in their paper would be exhaustive. We can, however, agree with the basic thrust of the approach now outlined by the staff in the new paper on the four issues briefly raised. At the same time, one must not lose sight of what must be the guiding principle for the Fund, and that is that while the amendment of the Articles should have a general character, the Fund should not be involved in detailed examinations. More generally, I would also like to reiterate our support for the so-called broad approach and for that the Fund's policies, with respect to capital liberalization, should be guided by the need to preserve its monetary character.

Finally, in the design of Fund policies as regards investments, the Fund should supplement but not duplicate the work of MAI Contracting Parties and the WTO. In this context it is important to note that in the WTO-agreement the Fund already has, and probably will be given in the MAI-agreement, the right to express its views on countries maintaining restrictions in relation to the two agreements for balance-of-payments reasons. The Fund should, moreover, be informed of the developments as regards restrictions on the underlying transactions with respect to inward foreign direct investment and it would seem appropriate that payments and transfers associated with inward foreign direct investments be an issue to be covered by the Fund.

Mr. Kiekens made the following statement:

I can confirm my view expressed at this Board's seminar on Capital Account Convertibility that it is necessary to adapt the Fund's Articles of Agreement to an international monetary system which is increasingly being shaped by capital movements. Since that seminar, the staff has done good work in narrowing down the issues requiring further examination. In preparing the report to the Interim Committee, we need to identify the issues on which broad agreement now exists and those where differences remain. As Mr. Bernes points out, the latter includes reaching understandings on a division of responsibilities with the other international institutions concerned with the liberalization of capital account trans-actions, although I am of the opinion that given the Fund's universal membership, and its role in overseeing the International Monetary System, the Fund naturally should take the lead.

During the seminar, I held the view that the Fund's jurisdiction should cover payments and transfers but not the underlying transactions, provided these can clearly be distinguished from payments. On balance, the staff continues to favor a broader approach to defining the Fund's jurisdiction, and would include the underlying transactions. However, the staff also examines in some detail the merits of excluding from these underlying transactions those which are related to inward direct investment. The question of the scope of the Fund's jurisdiction is certainly the most complex issue to be resolved as we move toward capital account convertibility.

The idea of excluding inward direct investments has merit, because restrictions in that area are often imposed for reasons that have little or nothing to do with balance of payments or macroeconomic considerations. In addition, inward direct investment will fall under the jurisdiction of the proposed MAI. Also, I think that the staff's suggestion may be easier to implement than my version, and might be equally effective in excluding from the Fund's jurisdiction issues related to the right of establishment and the acquisition of physical assets such as real estate.

When liberalizing capital movements, gradualism is of the essence. Each member should therefor be allowed to move toward capital account convertibility at its own appropriate pace. Accordingly, I agree with the idea of grandfathering existing restrictions at the moment the Amendment is approved. Of course the Fund will have to give its advice, in the course of its policy dialogue with members, whenever it considers that the removal of certain restrictions is desirable.

I also believe that when deciding on authorizing new temporary restrictions on capital movements in emergency situations, we should be more flexible than we are under the Fund's present policy on authorizing to temporary restrictions on current payments and transfers.

Also, since capital movements are more volatile than current account transactions, the Fund should also be able to include exchange restrictions in its conditionality for access to its resources. This issue is closely linked to the avoidance of moral hazard and the problem of designing an appropriate Fund policy for lending into arrears, issues that need to be further explored.

Concerning the procedure for approving nontemporary restrictions justified by national security concerns or the prudential supervision of financial institutions, I agree with the staff that these be approved on a no objection basis. Of course, care should be taken to insure that such restrictions are not abused.

The Chairman observed that Mr. Kiekens had said that gradualism would be of the essence, and that he supported the grandfather clause. He wondered whether he shared the staff view on the need to avoid backsliding.

Mr. Kiekens said that he agreed with the staff's views.

Mr. Yoshimura made the following statement:

It is desirable that the Fund continue to play an active role in promoting capital account liberalization in the global economic society. To this end, I support the Fund's continuing examination of possible amendments to the Articles of the Fund. I thank the staff for having quickly provided us with a useful paper; one which addresses the four key questions raised during our February seminar.

I would like to mention the scope and the timing when we handle this important subject. Like many other Directors, I can go along with a broad approach including underlying transactions. From a practical point of view, I think the approach of the Director of the Policy Development and Review Department, which I read in Mr. Bernes's statement, seems reasonable to me, and Mr. Bernes's reflection on the relationship of the Fund to other relevant international institutions is worth noting. In any case, we need further examination of this subject, and we should closely monitor developments, especially in the MAI and WTO financial services talks.

As to the pace of our discussion and the timing of amending the Fund's Articles, I read the cautious comments made by Mr. Sivaraman. The Fund has many other important agendas to address. SDR allocations and the quota increase are prime examples. These issues should be discussed with due priority given to them, and completed expeditiously and properly. The Board should take a cautious step-by-step approach to the capital account convertibility issue for the moment; that is, it should continue to discuss the key issues, one by one, before attempting a specific draft of the amendment to the Articles.

I would now like to briefly comment on the specific issues addressed in the staff paper, bearing in mind the abovementioned prudent approach. The transitional arrangement described in the staff paper seems unobjectionable thus far. I am especially in agreement with paragraph 16, which says that a grandfather clause would be appropriately incorporated, and in paragraph 17, which says that a country with Article XVI status can be promoted to remove restrictions by persuasion through annual consultations, surveillance, and technical assistance activities.

I do, however, have one question. In the case of developing countries the economic situations of which are vulnerable, the need to impose temporary controls might arise at any moment, in order to maintain a sound balance of payments and to avoid sudden fluctuations in the foreign exchange rate. Accordingly, regarding a transitional arrangement, it would be better to impose the obligation of liberalization in a more flexible manner than is the case with respect to the current Article VIII. I would like to hear the view of the staff on this point.

Concerning the temporary approval policy, the Fund should play an oversight role vis-à-vis the introduction of temporary restrictions by member countries. However, the Fund's acting as an overseer would be controversial, given that the Fund has been promoting capital liberalization on a case-by-case basis, taking full account of member countries' particular situations. Careful analysis should be made so as to maintain consistency with the WTO and MAI discussions on similar topics before we attempt to solidify Fund policy on this matter. On approval policy, we would like to see further discussions in the Board or in the Fund, and also in other relevant international institutions. For the moment, we have not decided our definite position yet. Having said that, I also see Mr. Giustiniani's point. I think the Fund should play a central role at the stage of introduction of temporary restrictions. Because of its surveillance ability, the Fund has enough capability and knowledge to monitor developments. At the same time, other institutions are not sufficiently equipped to handle this aspect.

> Regarding the approval policy for permanent restrictions, national security concerns and reasons of prudence should be accepted, even if they happen to restrict capital account transactions. Provisions should certainly be made for cases such as this. However, it is questionable whether the Fund's knowledge and expertise are sufficient to judge whether or not any restrictive measures can be attributed to social security concerns. Fund involvement in this should, therefore, be limited to specific circumstances in which restrictive measures implemented for reasons of national security are clearly of an economic nature. In such cases, the Fund should merely make recommendations to the authorities.
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> With regard to the scope of jurisdiction, the staff paper helps clarify many complicated issues related to inward direct investment. Because of this, our future choices are made easier. I would like to ask that in future deliberations the staff take care to avoid duplicating the work of other international organizations—such as the MAI—in determining approval procedures and jurisdiction. I would like to emphasize that cost effectiveness should be pursued, especially given the severe constraints in terms of both staff and budgetary resources.
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> Finally, the question on use of Fund resources is apparently quite complicated. I hope the staff will be able to work out a balanced framework with adequate safeguards. In doing this, the staff should avoid overburdening the Fund financially and should prevent placing a moral hazard on recipient countries.

The Chairman stated that the Fund was extremely careful in trying not to duplicate work done in other institutions, and indeed, the Fund discussed with those institutions the character of the work that it planned to undertake to ensure that duplication was avoided. Regarding the use of Fund resources, the Fund's philosophy had always been to try to prevent the need for the use of Fund resources from arising—prevention being better than cure.

Mr. Al-Turki made the following statement:

> I appreciate the work of the staff in helping bring our discussions forward. At the previous meeting, this chair was of the view that the Fund can and should play an active role in promoting capital account convertibility. By virtue of its mandate to oversee the international monetary system and exchange rates, the Fund already has an implicit responsibility in a wide variety of capital account issues. I am also of the view that the Fund is the best, and naturally, suited international organization to oversee capital account transactions.
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> This being said, this chair feels that it is necessary to gain more experience with current practices and come to a comprehensive understanding on the issues before we proceed to agree on a modality of an amendment.
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> The paper before us, as well as the one prepared by staff for our earlier meeting, only serve to highlight the very complex nature of this issue. It would be inadvisable to proceed with any haste. Many issues remain to be resolved. In

particular, I concur with Mr. O'Donnell on the need for further consideration of the definition of inward direct investment in order to clarify the possible scope of Fund jurisdiction.

While there might be some merit in a more coordinated approach with other international fora or organizations, this may be needed only to the extent that others may have significant expertise in this area. I would not support an approach that might effectively leave many loose ends, or yield jurisdiction to other organizations.

Finally, as I stated during our last meeting, we need to ensure consensus before proceeding further. It is important not to allow this important issue to become divisive in any way.

Ms. Lissakers made the following statement:

At our previous discussion, there was broad agreement that capital account convertibility was a desirable objective. However, it was also recognized that capital controls may be a necessary second best solution in certain circumstances and that gradual liberalization was likely to be more acceptable and sustainable. Finally, most agreed that an amendment of the Articles to provide the Fund with a mandate in the liberalization of capital flows was appropriate in view of the Fund's responsibilities for promoting a smoothly functioning international monetary system.

The extension of the Fund's jurisdiction should aim to encourage liberalization over time, deter imposition of new, or the intensification of old restrictions and require transparency through timely and comprehensive notification of restrictions—both specific requirements and the legal and policy structure underlying them. At the same time, it must preserve the opportunity for sovereign countries to take actions they deem essential to their interests. These considerations must be balanced in a manner that creates a presumption in favor of freedom for capital flows and obligations which have some "teeth," while avoiding a situation in which members would be unwilling to liberalize for fear of being unable to respond to future contingencies.

We continue to believe that the broad approach to extending the Fund's jurisdiction is likely to be most effective and thus should encompass underlying transactions as well as payments and transfers, and inflows as well as outflows. However, we would agree with staff that the Fund should focus on those areas where its overall mandate as a monetary institution is most directly involved.

In this regard, we recognize the Fund's interest in capital movements related to direct investment but believe the Fund should defer to other bodies on inward foreign direct investment, at least with respect to questions concerning the right of establishment rather than balance of payments and macroeconomic issues. However, current and prospective investment agreements may have gaps, including limited country participation and narrow coverage. The Fund may have a role in filling these gaps by, for example, at a minimum ensuring that information on restrictions is provided through timely and comprehensive notification procedures. The Fund certainly has a legitimate interest in the imposition of restrictions on payments and transfers associated with inward direct investment, although we would urge the Fund to work closely with the MAI and WTO to avoid the problems that have surfaced in the past regarding inconsistent rights and obligations on payments and transfers involving current account transactions.

We would also agree with staff that the Fund jurisdiction should include restrictions on outward direct investment which are likely to be imposed primarily for balance of payments reasons. Finally, the Fund should also work with other institutions to develop a mutually acceptable definition of direct investment.

An amendment to provide the Fund with a mandate regarding capital movements would have very little impact unless the Fund is given some authority to examine and appraise all restrictions, and to require approval in certain cases involving the imposition of new or intensification of existing restrictions. However, there is a fine line between rules and policies which prevent backsliding and promote capital account convertibility by requiring explicit approval, and those which have the perverse effect of creating incentives for countries to retain existing controls to protect themselves against future contingencies. It is probably impractical to achieve the necessary balance between these competing concerns in the actual text of an amendment. The policies and practices which the Executive Board develops, and the resulting "case law," will in the end determine if the right balance is achieved. However, it may be possible to include in the amendment provisions that will provide comfort.

We would agree with staff that the amendment should include transitional provisions, particularly for less developed countries, although with procedures for periodic review.

However, all existing restrictions should be notified to the Fund at the outset and any new restrictions notified shortly after they are imposed. Consideration should also be given to whether permitting imposition of temporary nondiscriminatory restrictions to deal with serious balance of payments and macroeconomic problems should be permitted, albeit with Fund review and some form of approval would still be necessary. Any Fund approval of new restrictions should be ex post and for a temporary period, with provision for periodic review.

The approach on nontemporary approvals can also serve to provide comfort and thus enhance support for an extension of the Fund's jurisdiction. With regard to national security restrictions, it may be necessary to provide a more explicit exemption than now exists with regard to current account measures. National security concerns touch on the most sensitive issues regarding national sovereignty and members are likely to insist on full discretion in this key area as part of any extension of the Fund's role. Similarly, experience suggests that regulatory agencies are very reluctant to permit oversight of their actions by multilateral institutions and have insisted on a wide-ranging carve out for prudential measures in other agreements albeit subject to dispute settlement mechanisms. We would urge that the Fund take a cautious approach regarding its role in reviewing and approving such measures when crafting an amendment.

We continue to believe that potential financing issues related to capital account liberalization should be addressed in the context of the Fund's traditional role in helping members deal with balance of payments financing problems. One should not presume that liberalization would create a need for additional Fund financing. Moreover, extension of Fund jurisdiction to capital flows will have important implications for the Fund's policies on external payments arrears, including Article VIII, Section 2(b), as well as the issues addressed in Article VI. Therefore, we look forward to early consideration of the staff paper on the issues after the Interim Committee meeting and before the text of an amendment is considered.

Mrs. Guti made the following statement:

I would reiterate the position that we expressed at the seminar in February on this issue. While we support the need to enhance the Fund's role in promoting the liberalization of capital flows, we pointed to the need for a more cautious and gradual approach, given the fragility of the economic situation in many developing countries and the potential destabilizing effect that capital movements could have in these countries.

On the scope of jurisdiction, we expressed some doubts about the immediate applicability of the broad approach, since a number of issues needed to be clarified before the adoption of this approach. We referred to the need to identify the transactions that would be consistent with the mandate of the Fund, as well as to assess the implications of the Fund's monitoring of members' compliance with the underlying transactions obligations. We hope that these questions will be adequately addressed in the more comprehensive study to be carried out. This might assist in providing the basis for defining more precisely the scope of Fund jurisdiction. Moreover, while the staff is right in recommending that the allocation of jurisdictions among international organizations needs to be based on substantive criteria, and not simply on the distinction between payments and transactions, we tend to agree with Mr. Bernes that we should above all try to focus on the elements that would guide the allocation of responsibilities among the various institutions.

Transitional arrangements will no doubt be necessary as the countries strive to move toward liberalization. Once again, the importance of sequencing liberalization with macroeconomic adjustment and structural reforms cannot be overemphasized. In this regard, we share Mr. O'Donnell's view that countries should not be forced to liberalize or remove controls before they are ready. We also agree with the staff that the existing mechanisms of annual consultations, surveillance, and provision of technical assistance are important elements through which the Fund can assist its members in their move toward capital account liberalization. While it is plausible to expect that capital account liberalization could assist in deepening the country's access to capital markets, and thus reduce the demand for Fund resources, one should not exclude the possibility that the magnitude of volatility of liberalized capital flows might also lead to increased demand for balance of payments support from the Fund. This strengthens the view that capital account liberalization, while necessary as a goal to be achieved, should be implemented gradually and cautiously.

We also look forward to discussing the staff papers that will be reviewing Fund policy on financing, and on external payments arrears to private creditors.

Mr. Shaalan made the following statement:

When we last discussed the question of capital account convertibility and a possible amendment of the Articles of Agreement, a number of issues were raised that required further analysis in key areas. Like Ms. Lissakers, we believe that these issues need to be addressed in some more detail before we can meaningfully embark in what is a historic amendment of the Articles of Agreement. I, therefore, agree with Mr. Bernes and Mr. Sivaraman that while there does appear to be a broad consensus on the value of formalizing the Fund's role in the promotion of capital account liberalization, we are not yet at the stage of contemplating specific recommendations to broaden the Fund's jurisdiction.

In this context, I would, in particular, highlight the following points. First, while, no doubt, the Fund is equipped to oversee capital account liberalization, we should not forget, as a number of other Directors have noted, that the promotion of capital account liberalization requires the cooperation of other institutions. Adequate consultation with other players, will prevent unnecessary interinstitutional tensions that may ultimately undermine effective collaboration.

Second, we must, therefore, seek to delineate, in a cooperative fashion, the various roles to be played by other concerned international institutions, as well as by the Fund, in overseeing capital account liberalization. I hope this will not be a time-consuming process. Its early settlement would serve to assure a smooth implementation of what is commonly agreed upon. We, therefore, can go along with Mr. Bernes' suggestion of asking the Interim Committee to endorse a recommendation that the Fund formally engage members and other institutional players in the discussion of this very important issue.

Third, to further move the process forward, we could at this stage seek the Interim Committee's endorsement of the objective of making capital account liberalization an explicit purpose of the Fund. However, I do not believe we are in a position to seek the Committee's endorsement of any specific recommendations on broadening Fund jurisdiction. If needed this could be left to a later stage, following discussion of the more exhaustive paper to be prepared by staff.

Mr. Zhang made the following statement:

I appreciate the staff's updated proposals for capital account convertibility, incorporating the main concerns of the Board seminar in February. The revisions in this updated document seem more pragmatic. However, a number of issues need to be studied further.

First, I welcome the Fund's effort in promoting capital account convertibility and I can agree, in principle, that there is a need for the Fund to extend its jurisdiction. However, given the complexity of this issue, it is advisable that the Fund avoids premature pressure on members whose conditions are not yet ripe. I notice from the last Board seminar that not only many developing countries, but also some highly advanced industrial countries, are concerned about the counter-productive effect of undue pressures on this endeavor. The Fund's proposal for capital account convertibility is mainly based on the OECD's Capital Code which is more adaptable to industrial countries. Nevertheless, the developing countries still face mounting challenges, in various degrees, in strengthening macroeconomic management, deepening the financial market, and enhancing the soundness of the banking system. It takes time for them to assess the impact of, and necessary conditions for, liberalizing the capital account. Therefore, the Fund's strategy should not only be based upon the need to promote the stabilization of the international monetary system, but also to promote the economic development of member countries.

Second, on the scope of Fund jurisdiction, I can support the exclusion of inward direct investment reflecting the mainstream concerns of the last Board seminar. However, I have noted that further consideration is needed in this respect as the staff paper suggests on page 4. In this context, I agree with Mr. Sivaraman's view that there are certain issues and their implications that are not fully understood by us at this stage. Therefore, we believe that the Fund should take a cautious approach in amending the Articles.

On the approval policies and transitional arrangement, it is essential for the Fund to pay due regard to a member's willingness to remove restrictions and the Fund's advise with regard to capital account actions should be consistent with the need to preserve economic stability to avoid undue pressure on member countries. Therefore, it is appropriate to leave member countries more autonomy to determine the sequence and timing of capital account liberalization, following our practice under the transitional Article VIII arrangement. The Fund's role in helping member countries make progress in this regard can be well exercised through strengthened consultation, surveillance and technical assistance exercises.

Mr. Autheman made the following statement:

I am in agreement with the views expressed in the staff paper, so I will limit my comments to two aspects.

First, on the scope of the Fund's mandate or responsibility, I support the exclusion of inward investment; but I think we should be explicit on the motivation of this exclusion which, in my view, is based on our lack of competence in all matters related to the right of establishment. This means that a general and unspecified restriction on inward investment should be considered as a capital control.

Second, on the approval policy, regarding nontemporary approval, I would note that national security is not understood in the same way in all countries. Some have a narrower interpretation, others a broader interpretation. I would only point out that we need to keep a concept which allows countries to object to investments when they suspect that they are related to money laundering or crime money, matters where the administration of proof is extremely difficult.

Mr. Daïri made the following statement:

I appreciate the format of the recent staff paper. I wish to reiterate the points expressed by this chair in the seminar. I also agree with Mr. Sivaraman's statement and wish to make a few comments.

I continue to support liberalization of capital movements in line with progress in macroeconomic situation and the strength of the financial system in member countries.

The Fund has already been empowered by the Articles of Agreement to promote capital account liberalization, and we do not need to amend the Articles just for this purpose. According to Article IV, Section 1, members recognize that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, service, and capital among countries. Section 3 of the same Article entitles the Fund to oversee the international monetary system, in order to ensure its effective operation and the compliance of each member with its obligations under Section 1.

Regarding the staff's proposals, while I continue to believe that the underlying transactions should be excluded and that the Fund should only deal with payments and transfers, I would like to point out that exclusion of foreign direct investment inflows may create equity problem. Emerging countries are often very liberal in terms of their incentive structure for foreign direct investment, whereas in several industrial countries controls on foreign ownership or investment may be more frequent and at times more pernicious, especially when the right of establishment is artificially separated from approval of investment operations. Like Mr. Toribio, I am interested to learn from the staff the meaning of national security as applied for justification of nontemporary restrictions.

I do not agree that there is a moral hazard in eliminating existing limitations on Fund financing of members faced with capital outflows. This moral hazard will be no greater than that arising from the various Fund financing facilities. On the contrary, elimination of these limitations would strengthen members' confidence in the Fund.

I agree with Mr. Bernes and other Directors that we need to wait for an appropriate division of responsibility among international organizations before further action. I reiterate my support to Mr. Kaeser's proposal to discuss capital account liberalization with member countries on a voluntary basis before considering any amendment of the articles of agreement. An alternative proposal would be to postpone the entry into force of the amendment for two to three years to give members time to assess their situation and to benefit from technical assistance in this endeavor.

The Chairman remarked that the time it would take for members to ratify the amendment would probably give Mr. Daïri a large part of the additional time he was looking for in that regard.

Mr. Joyosumarto made the following statement:

We welcome the paper on further considerations on Capital Account Convertibility and a Possible Amendment of the Articles on Agreement.

I would like to reiterate the view of this chair that there is no need for an amendment of the Articles of Agreement to make liberalization of capital movements a specific purpose of the Fund. In an increasingly integrated global financial system, market forces will encourage all countries to liberalize capital movements over time. However, the pace of liberalization should be left to the country concerned, based on its level of economic and financial sector development. Countries with less developed financial sectors would also need the flexibility accorded by capital controls to deal with disruptive capital movements under extenuating circumstances. The need for a gradual or even cautious approach is particularly relevant as liberalization is usually considered irreversible.

With respect to issues raised by staff on the scope of jurisdiction, the stance of this chair is that the Fund could still follow the narrow approach. I believe that the underlying transactions associated with capital account transactions could be tackled in the context of the Article IV consultations on the basis of macroeconomic and balance of payments reasons.

On the approval policies, I agree with Mr. Sivaraman that while the Fund could provide useful policy advice to the member countries in determining when temporary imposition of controls provides an appropriate means of controlling surges in capital inflows and outflows, the Fund is not in a final position to approve such temporary controls. The Fund should not impinges on the prerogatives of governments to do what is best to prevent a crisis in their country. In addition, the Executive Board may not be able at all time to quickly and fairly assess the merits of a country's case for restrictions on the capital account, and to deal prudently with the consequences in the event of a capital flight.

On the transitional arrangements in the area of capital, I wish to reiterate the importance of sequencing liberalization with structural measures, especially in the monetary and financial sector, and of pacing liberalization to the particular circumstances of each individual member. Furthermore, I agree that the transitional arrangements should not be used by members as a means of unnecessarily delaying capital account liberalization.

Mr. Kaeser made the following statement:

I have a more cautious approach than many younger colleagues as to the role of the Fund in the field of capital account liberalization. While this caution is based on the erratic behavior that characterizes all too often the functioning of the financial markets, I am convinced that the Fund was and is right in advising countries that wish to liberalize their capital account, but I think that the Fund would have to assume serious responsibility if it actively promotes capital account liberalization. I say serious responsibility because the Fund would have an obligation to help countries which get into trouble because of awkward capital movements under an imposed regime of capital account liberalization. Financial crises will happen again, because the capital markets are often wrong in their assessment. Countries will ask the Fund for financial support, possibly on an even larger scale than during the debt crisis. An amendment of the Articles of Agreement establishing an obligation on members to liberalize their capital account should go hand-in-hand with an enlargement of the size of the Fund. This was already my view in the context of the recent discussion on the use of Fund resources. The Fund should be in a position to respond properly, on the basis of the emergency procedures, to urgent financing needs of large countries, or of a group of large countries, for which activation of the New Arrangements to Borrow might be problematic. Nevertheless, in the spirit of compromise, I could join a consensus leading to an amendment of the Articles of Agreement.

As to the wording of such an amendment, I wish the General Counsel luck in introducing an obligation relating to capital account liberalization in Article I, which requests the Fund to promote exchange stability and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments. Having expressed my readiness to join such a consensus, I should hope not to be alone in joining it.

As to the scope of the jurisdiction, inward foreign direct investment should be excluded, as this matter is dealt with in bilateral agreements, and—we hope—in the Monetary and Exchange Affairs Department. However, it would be sensible to put the payments and transfers associated with inward direct investment under the Fund's jurisdiction. For the rest, Fund jurisdiction should be limited to the underlying transaction relevant to the Fund's mandate. In this respect, if we are now addressing the underlying transaction in the context of capital account liberalization, I wonder if we should not also have a look at the underlying transaction in the context of the current account. That would be a desirable development, because there is no reason not to look at the underlying transaction in the context of the current account, and not do so in the context of the capital account, in my view.

As to approval policies, it is clear that temporary approval should not be requested prior to the introduction of restrictions, for fear of insider transactions. The approval should be given on a lapse of time basis shortly after the introduction of the measure. Waiting for the next Article IV consultation may be too late, and may not prevent backsliding.

Transitional arrangements are necessary. The Fund should eventually assist member countries in preparing for liberalization, but also tell them if such a move is premature.

Mr. Yao made the following statement:

An amendment of the Articles should be considered in order to enable the Fund to cover capital movements in its mandate. Such a change will require adequate technical assistance to developing countries to help them put in place the safeguards needed during the process of capital account liberalization.

On transitional arrangements, it is clear that restrictions in place at the time of the amendment will be grandfathered, but at the same time, in footnote 5 it is mentioned that once the Fund has decided that the country should abandon the restrictions, if the country persists in applying them, then the Fund may declare the member ineligible to use the Fund's resources. What will happen to the country with a Fund-supported program that does not feel it is ready to liberalize? What will be the impact on the relationship with the Fund in that particular case?

Second, the relationship between the use of Fund resources and the liberalization of capital account transactions needs to be discussed in detail, because crisis situations caused by the free movement of capital may put a great deal of pressure on the Fund's resources. We need to address the question of whether our resources are sufficient to meet those crises in the future.

Mr. Mozhin made the following statement:

The new paper is a step forward, which effectively takes care of at least some of the concerns we expressed during our seminar discussion. In particular, a more flexible approach to approval policy and transitional arrangements is fully justified. In addition to arguments articulated by previous speakers, I would like to reiterate that, unlike in the case of current account liberalization, in the case of capital account liberalization, unilateral benefits for individual members are much more obvious. Therefore, there may be less of a need for a stricter approach to approval policy.

On other issues, we support the idea of having an amendment that would extend the Fund's jurisdiction to cover capital account liberalization. We support the broad approach as opposed to the narrow approach. In our view, it may be difficult, and perhaps impractical, to fully exclude direct inward investments. Perhaps, like Mr. Andersen, I would suggest that we try to find a formula that would complement the efforts of other jurisdictions rather than duplicate them. In particular, we should make use of the universal membership of the Fund. At the same time, this issue, like the issue of the scope for Fund financing of capital outflows, and a few others, will certainly require further considerations.

The General Counsel stated that it would be difficult to agree on a definition of inward direct investment. Mr. Waterman, in particular, had made the point that the concept of aggregate control by foreign residents did not really fit the concept of direct investment as such, but it was related and needed to be taken into account. While there were a number of technical problems, the staff would have the benefit of the work done by the European Union, the OECD, and the MAI on that issue. It was possible that the Fund would eventually have to come up with its own solutions, nevertheless.

Executive Directors appeared to agree to the principle that the Fund should have within its mandate the promotion of capital account convertibility, and that the capital account was within the Fund's jurisdiction in the context of its role in the international monetary system, the General Counsel considered. The scope and modalities of that jurisdiction, of course, remained to be determined.

It was clear that transitional provisions would be needed, the General Counsel emphasized. While the grandfathering of existing restrictions should not be taken to mean that they would be allowed to remain in force forever, they would remain in force as long as the traditional reforms were in effect. Mr. Yao had raised a particular question on that point. The footnote in Article XIV described the present rule of the Fund with respect to transitional arrangements concerning current payments. Article XIV did provide for a sanction, in the sense that a member who failed to liberalize its current account even though the Fund believed that it should do so might become ineligible to use Fund resources, but it needed to be borne in mind that that measure had never been imposed. In practice, the Fund had been extremely liberal—some would even say too liberal—in the implementation of Article XIV. Given the sensitivity of the question of capital movements, the question would be whether the Fund should not be even more cautious, or perhaps even more willing to provide technical assistance to assist countries in the direction of liberalizing their capital accounts.

On the question of underlying transactions and to what extent they should be included or not included, Mr. Kaeser had questioned the difference between current transactions, where the Fund was not asserting any jurisdiction, and the underlying capital transactions, where the question was whether the Fund could assert jurisdiction, the General Counsel recalled. The basic difference was that, when the Fund was established, it had even been recommended that an international trade organization be created that would have jurisdiction over the underlying trade transactions. In the late 1940s and early 1950s, there had been a discussion between the Contracting Parties to the GATT—which had not yet at that time been an international organization—and the Fund to clarify their respective jurisdictions. At present, the World Trade Organization had jurisdiction over not only trade in goods, but also trade in services—both being current transactions—and therefore the Fund would have to recognize that jurisdiction.

The situation with respect to investments and with respect to capital transactions was quite different, the General Counsel concluded. Work had been done in those areas on a regional level, such as by the European Union, as well as under the auspices of the OECD and in the context of the MAI. He could only praise the spirit of cooperation that had been displayed by the delegations to the MAI, who had shown a great willingness to cooperate with the Fund. Much progress had been made in recognizing the Fund's interest in the liberalization of capital movements and, more specifically, the role given to the Fund in assessing the balance of payments problems that might justify the imposition of restrictions on capital transactions.

Mr. Yoshimura commented that, in his previous position in the ministry of finance of the Japanese government, he had participated in some of the MAI discussions. His personal impression was that there were many people who supported the interests of investors and who were eager to promote the liberalization and globalization of investment—so eager, in fact, that they sometimes neglected to take note of the prudential activities of governments or the need to preserve the stability of the international financial markets. He hoped that the Fund would continue to monitor carefully the MAI discussions.

The General Counsel observed that there had been a turning point in the Fund's discussions with the MAI early in the year. He had attended one of those meetings of the MAI, at which the tone had been exactly the one that Mr. Yoshimura had noted. There had been great interest in protecting investors, and very little interest in recognizing that countries could face balance of payments problems. He had even heard a number of statements explaining why there was no longer such a thing as a balance of payments problem. The staff had worked on the Group of Ten report on balance of payments problems, and he had consequently suggested that the MAI read that report. At the next meeting of the MAI, participants had been much more open and willing to consider cooperation with the Fund.

Mr. Sivaraman said that he wondered whether the staff had made any studies on the issue of restrictions on underlying transactions. It was likely that such restrictions would be numerous. He wondered whether, given the ubiquity of such restrictions, the staff would be able to take them fully into account in the formulation of any amendment of the Articles or to issue proper guidelines to the member countries concerned.

Mr. Daïri commented that there was a great deal of consultation between the Fund and the relevant institutions representing industrial countries. Unfortunately, there was no such thing as an OECD for less developed countries. He wondered whether the staff had had a chance to discuss the issue with an appropriate grouping of less developed countries, to check their sensitivities and areas of interest.

Mr. Toribio remarked that there already was an organization that encompassed both the developing and industrial countries—the Fund.

The Director of the Monetary and Exchange Affairs Department stated that the documentation prepared for the seminar in February 1997 had included a review of experience with capital account liberalization, a project that the staff had undertaken with a number of countries, including some 31 or 32 developing countries. That study had aimed to gather information on capital account measures, including underlying transactions. Work on a study of the implications of an extension of the Fund's jurisdiction was under way. The first stage of the project had been to gather information on the measures that countries had adopted regarding underlying transactions.

The General Counsel stated that the WTO was in charge of implementing the treaties entrusted to its jurisdiction, namely the GATT on trade in goods, and the General Agreement on Trade in Services (GATS) on services. The idea of investment liberalization was not part of the WTO's mandate. The liberalization of capital transactions under the auspices of the WTO had taken place only to the extent that it was related to the achievement of the objectives with respect to trade in goods or, more specifically, trade in services, and in particular, financial services. Having said that, perhaps there was a "gleam in the eye" of the delegations to the WTO that there would be a treaty on the liberalization of investments, and the staff could try to ascertain that; however, at present, the staff had no official documentation about that.

Mr. Bernes considered that there were huge gaps in the institutional architecture for dealing with capital account and investment issues. He wondered whether there had been any discussions between the Fund staff and the staff of the WTO or the OECD as to what an appropriate institutional architecture might look like, to ensure a supportive and collaborative effort, and what scenarios there might be for different types of arrangements

The General Counsel replied that the WTO was working on a general agreement on trade in services. The OECD was working on a multilateral agreement on investment. The Fund staff had not been asked to participate in a discussion on an architecture.

The Director of the Monetary and Exchange Affairs Department confirmed that the staff had been consulting with the OECD staff for a long time in respect of the Fund's project on enhanced procedures for capital account liberalization. The staff had studied the OECD's code of liberalization and its methods of implementing it. The staff had sought the views of the OECD on what the role of the Fund could be, and on what role the OECD's code of liberalization would play in the Fund's role and that of the MAI. The staff had stressed the interest of the Fund in that area and had underscored the importance of having whatever agreement was reached in the context of the MAI compatible with Fund agreements. Those initial exchanges of view had led to the kind of productive collaboration that was taking place at present, in recognition of the Fund's position with respect to the capital account within the MAI. The organizations would have to ensure that they coordinated their jurisdictions and avoided duplication of effort. One of the staff's concerns related to a point made by Ms. Lissakers, namely, that many of the other agencies or arrangements did not have a membership as universal as that of the Fund. In its discussions with those bodies with somewhat less universal membership, the staff had sought to further the Fund's objectives regarding capital account liberalization.

Mr. Yoshimura agreed with the General Counsel that the WTO's discussion on investment was at a preliminary stage. He recalled that the Ministers had agreed to take up that issue at the time of the WTO meeting in Singapore. The WTO had just resumed negotiations on the liberalization of services, especially financial services. It was hoped that those talks would be finalized by the end of the year, as the present arrangement was an interim one, given that the United States had opted out of it. In that context, there might be a link between the liberalization of services and the liberalization of investments, in that liberalization of the rules on the establishment of bank branches and subsidiaries could be seen as liberalization of investment rules as well. In that sense, the investment agreement was closely related to the liberalization of trade in services.

The staff representative from the Policy Development and Review Department stated that there were many ongoing discussions and consultations with other organizations. Even though there might not have been an explicit attempt to try to get overall coordination, it was coming to that as a result of the ongoing discussions. In its relationships with the other organizations, the Fund was trying to find the appropriate configuration of responsibilities, which might inevitably involve some overlap, as was the case with respect to jurisdiction over the current account. The key was to avoid conflicting or dissonant approaches among the organizations concerned. More active engagement, as outlined in Mr. Bernes's proposals, needed to be considered, with a view to securing the optimal configuration of responsibilities.

In its involvement with the MAI, the Fund was not out of touch with the concerns and interests of developing countries, the staff representative emphasized. Six delegations at the MAI discussions were from emerging markets, and they were constantly providing that perspective. In the Fund's continued involvement with the WTO, the staff had not only reaffirmed, through the Cooperation Agreement, new procedures for the balance of payments consultations, but it had also opened up possibilities for further discussions on coherence. That might be the forum for the discussions of the sort that Mr. Bernes was suggesting.

The Chairman stated that, while it was appropriate for the Board to assure itself that the Fund was not becoming overly aggressive in involving itself in the areas of interest of other institutions, the fact of the matter was that the Fund had too much to do to have such an ambition. In any case, perhaps the Committee on Liaison with the WTO might monitor on a continuous basis the quality of the Fund's cooperation with the WTO, which might reassure Directors of the Fund's good behavior. In fact, some time ago he had had a long discussion with the Director General of the WTO, Mr. Ruggiero, and he had not identified any major difficulty in the relationship between the WTO and the Fund that would deserve the attention of the Board. He would be ready to report periodically on the Fund's relations with the OECD, with which the Fund was in weekly contact through the Paris Office. It was important that the membership be reassured that the Fund would not create any mechanism that could duplicate the work of, or create problems for, other institutions. On the contrary, the Fund must take advantage of the competence of other organizations to supplement its own efforts. The Fund must limit its role to those areas of its comparative advantage, areas in which it could be truly indispensable.

Mr. Esdar said that he was not afraid that the Fund would take too much responsibility on itself. Rather, he wished to avoid the kind of institutional disagreements that had arisen between the Fund and the WTO in the preceding year. For that, it would be important to implement institutional linkages between all the organizations concerned, at an early date. It was necessary to find an institutional framework of cooperation.

The Chairman said that he agreed with Mr. Esdar. He would wish to recall that the Fund had been successful in handling the disagreements to which Mr. Esdar had referred only because Executive Directors themselves had been vigilant and had taken the initiative to change positions of their authorities that did not take adequately into consideration the responsibilities of the Fund. Directors had an individual and a collective responsibility to ensure that organizations were not pushed into areas that were outside their proper sphere.

The General Counsel, responding to a question from Mr. Daïri, said that he would find it difficult to confirm that promotion of capital account liberalization fell within the Fund's mandate, even if it were not explicitly within the purposes of the Fund given in Article I. In its exercise of surveillance in the context of Article IV consultations, the Fund looked at all aspects of a member's policies, which included trade policy and capital investment policy, as well as current payments, but that was done for the purpose of assessing the soundness of the member's policies. If, for instance, it was found that the member had had recourse to a particularly strict restriction on capital inflows or outflows, it might show that there was something wrong with the member's exchange rate policies; it would be in that context. The Fund was not promoting liberalization of capital investments or capital transactions as such; the Fund had been assisting members in achieving that purpose, as their purpose and their objective, not as a purpose of the Fund itself. In fact, it would be contrary to the right of members under Article VI to restrict capital transactions. The Fund could perhaps persuade, convince, or explain the benefits, but that was something else.

The Chairman commented that Article I had a degree of flexibility, and perhaps the mandate to assist countries in the liberalization of international capital transactions could be read into it. In his view, the membership was clearly moving in the direction of capital account liberalization, and that was all to the good. He saw no problem, therefore, in adding capital account liberalization to the list of the Fund's purposes. That purpose should be somewhere in the statutes of one or another of the world's financial institutions; he believed that the Fund's Articles were the most appropriate place to put it.

Ms. Lissakers observed that there was a clear bifurcation in the Articles between the treatment of the current account and the treatment of the capital account. Article I made a specific reference to current transactions and omitted capital account transactions. The two were clearly distinguished in the specific statements and restrictions on the Fund's activities in the area of capital controls as laid out in other Articles, including Article VI.

The Chairman said that he agreed with Ms. Lissakers. Taking into account the architecture of the Articles, and looking at them as a whole, such an interpretation appeared justified.

Mr. Daïri said that he agreed that the Fund did not have jurisdiction over the capital account in terms of the approval of restrictions, but the promotion of capital account liberalization was within the Fund's mandate. Article IV, Sections 1 and 3, clearly stated that among the purposes of the international monetary system was the provision of a framework that facilitated the exchange of goods, services, and capital among countries. Section 3 stated that it was the Fund's responsibility to oversee the international monetary system in order to ensure its effective operation and the compliance of each member with its obligations. Section 1 included capital account liberalization.

Mr. Toribio commented that he agreed with Mr. Daïri that the Fund should be careful in its contacts with other institutions and in its coordination with them on the question of capital account liberalization, as capital account liberalization affected all countries of the Fund, but not all of them were members of the other institutions. Of the eight countries in his constituency, for example, only two were members of the OECD. The other six did not feel obliged to comply with the provisions of the OECD. Nevertheless, the Fund should have a role in the architecture of the system by virtue of the universality of its membership. In his view, there were no grounds for calling into question the appropriateness of placing with the Fund the responsibility for promoting capital account liberalization.

The General Counsel said that the logic of Article IV left something to be desired; Mr. Daïri had a point on that score. During the negotiations on the Second Amendment, compromise wording had been agreed for Article IV. Despite the shortcomings of the logic, however, the law was clear. The beginning of Article IV, Section 1, defined the purpose of the international monetary system, not the purpose of the Fund. The purpose of the international monetary system was to provide a framework that facilitated the exchange of goods, services, and capital. The obligations of members were laid out in Article IV, Section 1.

Article IV, Section 3, stated that the Fund had to oversee the compliance of members with their obligations, but the Fund only oversaw the international monetary system in order to ensure its effective operation, the General Counsel pointed out. That did not mean that the Fund had the power to impose additional obligations and, in particular, the obligation to liberalize capital movements. What the Fund could do at the present stage was to tell a member that there was an undesirable state of affairs, and to change, but that was not an obligation. The Fund did not have the means at present to achieve its mandate to oversee the proper functioning of the international monetary system; the Fund had a mandate, but it did not have the means to achieve it.

Mr. Sivaraman observed that often laws were made by interpreting existing laws, but the Board could not interpret the Articles to mean something different than what they contained, even if there was a possibility of doing so. Even if one could argue that the existing Articles provided the necessary framework for the Fund to adopt capital account convertibility as one of its core purposes, it would be difficult for the Fund to move in that direction without the specific consent of all of its members.

The General Counsel noted that the issue of the Fund as an international bankruptcy court had been raised several times, and some papers on that subject had been prepared for the Group of Ten (G-10) and later circulated to the Board. The staff intended to address that matter in the forthcoming paper on arrears, so he would not go into detail about it at the current discussion.

To keep the Board up to date on the latest developments, he would note that the German courts had traditionally taken a broad interpretation of Article VIII, Section 2(b), holding that Article VIII, Section 2(b) did not apply to controls on capital restrictions precisely because they were not subject to Fund approval, the General Counsel said. If such controls became subject to Fund approval, the position of the German courts might change.

The Chairman recalled that the G-10 had invited the Fund to proceed with further studies on that subject.

The Director of the Monetary and Exchange Affairs Department stated that technical assistance on liberalization would clearly constitute an important element of the transitional arrangements. Perhaps the staff should have made that point more clearly in the paper. Without duplicating the work of other organizations, the Fund could support the liberalization and welfare-enhancing objectives of regional agreements, and in that vein, he would call attention to the Fund's support for the OECD's code of liberalization.

Mr. Bernes stated that the Fund had a critical role to play in the area of liberalization, especially given the universality of its membership. Mr. Esdar had referred to the difficulties the Fund had had with the WTO in finalizing the Cooperation Agreement, difficulties that had grown out of the fact that the organizations were, in fact, trying to establish how they would work together, given their respective mandates. The question at the current juncture was how new mandates should be defined, mandates in areas that were not formally covered. That was why his chair had said consistently that there was a need for a broader dialogue between the institutions and between various members of national administrations, so that a view would emerge as to what was the best and most efficient configuration to promote the shared objectives. In his view, some overlap was unavoidable. What concerned him more was unnecessary duplication of effort. However, through consultations and discussions in a spirit of cooperation, he was confident that that danger could be minimized. Coordination at the highest levels—such as with the Director-General of the WTO, or the General Counsel of the WTO, would always be essential. In deciding on a division of institutional responsibilities, a collaborative approach that ensured the involvement of others in the process was likely to lead to a better, faster, and more broadly supported result.

Ms. Lissakers commented that she shared Mr. Bernes's points about the desirability of cooperation and coordination with other institutions that might have mandates that overlapped with that of the Fund, but nevertheless, the importance of the Fund's core responsibilities in certain areas should not be minimized. She saw an updating and amendment of the Articles of Agreement as essential for the Fund to fulfill its historic mandate and mission. In that connection, she would note that the history of the Fund showed that the bifurcation of treatment between the current account and the capital account had been by no means accidental, but was rather a consequence of the perception of the Fund's founders of how the international monetary system would function after World War II. The expectation had been that there would be fixed exchange rates—as indeed there had been for some time—and that national capital controls would be an essential tool for preserving the international monetary system. The international monetary system was very different at the present juncture. The logical moment to amend the Articles with regard to the capital account would have been when the fixed exchange rate system was abandoned in 1972–73, in her view; the Fund was a bit late in dealing with the problem.

The Chairman said that he agreed with Ms. Lissakers. If the founders were drafting the Articles in the world of today, they would probably be addressing the issue of capital account liberalization in the same way that the Fund was addressing it.

Mr. Kaeser observed that, as in the case of the California gold rush, everyone wanted a piece of the action—the capital account action, at present. Perhaps various organizations could be asked to make stronger efforts to cooperate with each other, but it needed to be borne in mind that, in national capitals, there was active competition between different ministries to have a say in the area of the capital account. Directors should appeal to their own national authorities to better coordinate their views and efforts, which would make it easier for international institutions to delineate responsibilities.

The WTO was at present in charge of the question of the underlying transactions in the current account, which was a bit awkward, Mr. Kaeser considered. He wondered whether the Fund should have the same degree of responsibility with regard to the capital account as it had with regard to the current account. The question of cooperation between the Fund and the WTO in the event of a generalized current account liberalization also needed to be considered, and he wondered whether either organization had looked ahead to that.

The Chairman said that it appeared to him that only the Executive Board had any hesitation in recognizing what the Fund's mission was in respect of the capital account. It was logical for that responsibility to lie with the Fund, in his view, given the Fund's role in surveillance, its well-prepared staff, and its history of having handled effectively the transition from Article VIII to Article XIV. He saw no major difficulties with the WTO, and he hoped for the same successful collaboration with the OECD. The Fund was well equipped for what it would be doing. At the same time, a dialogue with the others would be maintained, as Mr. Bernes had noted was so important.

Mr. Yoshimura said that he agreed with the Chairman. While it was very important to have consultations with the WTO, the OECD, and the MAI, the Fund should nevertheless move ahead—albeit with appropriate caution—with promoting capital account liberalization; as Ms. Lissakers had said, the Fund should be the main force behind that. The Fund needed to be involved to ensure financial market stability, which was essential. With regard to the MAI, he had been happy to note from the comments of the General Counsel that the tenor of the meetings was improving, but the fact that the MAI had a different perspective than the Fund needed to be borne in mind.

The Chairman made the following summing up:

Executive Directors welcomed the further discussion on the basis of the staff paper on capital account convertibility and the considerations underlying a possible amendment of the Fund's Articles. Directors agreed that this summing up would be transmitted to the forthcoming meeting of the Interim Committee in accordance with the request made at its September 1996 meeting.

Directors agreed that an open and liberal system of capital movements was beneficial to the world economy. At the same time, they recognized the need to ensure that capital account liberalization was approached in an orderly and sustainable manner. They emphasized the importance of ensuring that the Fund was able to discharge effectively its mandate of overseeing an international monetary system increasingly dominated by capital flows. Given its mandate and its universal membership, Directors agreed that the Fund should play a central role in promoting capital account liberalization, and fostering the smooth operation of international capital markets. The Fund should also be prepared to advise its members in determining how the removal of restrictions should be sequenced with the necessary supporting structural and macroeconomic reforms. The Fund was also well placed to determine when the temporary imposition of controls could provide an appropriate means of addressing surges in capital inflows and outflows.

Accordingly, most Directors supported an amendment of the Fund's Articles to include the liberalization of capital movements in the mandate of the Fund, and supported an extension of the Fund's jurisdiction to capital movements which would allow for flexibility in implementation through transitional provisions and approval policies. Directors underscored the importance of ensuring adequate coordination with other international organizations.

With respect to the scope of jurisdiction, many Directors favored extending the Fund's jurisdiction to capital movements in a comprehensive manner, covering capital transactions and payments in both inward and outward directions. On inward direct investment, a number of Directors agreed that such transactions should be excluded from the scope of the Fund's jurisdiction on the grounds that they are normally restricted for reasons other than macro—economic and balance of payments management. However, it was generally recognized that both inward and outward payments and transfers associated with inward direct investment should be included within the Fund's jurisdiction. It was acknowledged that further consideration would have to be given to the definition of inward direct investment transactions under an amendment. Several Directors also pointed to the need to clearly define the scope of the Fund's jurisdiction with respect to other international organizations and agreements.

Directors agreed that an extension of the Fund's jurisdiction over capital movements would require the development of approval policies to enable members to impose temporary restrictions on both capital inflows and outflows. In light of the potential volatility and size of capital movements and, accordingly, the need for members in some circumstances to impose such restrictions on an emergency basis, Directors generally supported greater flexibility in approving temporary restrictions than under the policy presently applied to payments and transfers for current international transactions. Specifically, most Directors supported a procedure which would allow for restrictions introduced to address emergency situations to be approved on a lapse of time basis for a limited period. However, the need for follow-up by the Fund regarding the need for adjustments in underlying policies was also pointed out. Directors agreed that there would be a need for the nontemporary approval of restrictions imposed for national security and prudential reasons similar to the existing procedures for restrictions imposed for national and international security reasons.

Directors agreed that an extension of jurisdiction over capital movements would need to provide for transitional arrangements to ensure that liberalization was sequenced with structural measures, particularly in the monetary and financial sectors, and that the pace of liberalization took into consideration the particular circumstances of individual countries. However, it was recognized that the transitional provisions should be clearly defined and not be used by members as a way of unnecessarily delaying capital account liberalization. In that regard, it was noted that the Fund had been successful in assisting members to accept the obligations of Article VIII under its existing jurisdiction through annual consultations, surveillance, and technical assistance, and that such mechanisms would also serve as the primary means by which the Fund would assist members to ensure that capital liberalization was neither premature nor unduly delayed. Many Directors also emphasized the need to avoid backsliding after liberalization.

Views differed on the effect of capital account liberalization on the demand for Fund financing. While some Directors argued that capital liberalization would likely reduce such demand, others noted that the size and volatility of capital flows could increase the need for financing. A number of Directors underscored the need to avoid the moral hazard that could be associated with Fund financing of capital outflows and considered it desirable to retain some form of limitation on the Fund's financing of large and sustained capital outflows. However, some other Directors recommended the removal of that limitation. Those are issues to be revisited at the next stage of discussion.

> Directors also looked forward to an early discussion of the Fund's policy on external payment arrears to private creditors. Following the guidance by the Interim Committee, we will consider the next steps ahead of the September Interim Committee meeting.

2. SURVEILLANCE OVER EXCHANGE RATE POLICIES—REVIEW—OUTSTANDING ISSUES AND DRAFT REPORT OF MANAGING DIRECTOR TO INTERIM COMMITTEE; AND RELEASE OF PRESS INFORMATION NOTICES

The Executive Directors considered a staff paper on additional material relating to the biennial review of the implementation of the Fund's surveillance over members' exchange rate policies and of the 1977 surveillance decision, as well as the draft report by the Managing Director to the Interim Committee (SM/97/92, 4/10/97).

The Director of the Policy Development and Review Department noted that an informal meeting between the staff and Directors had been held, which had covered the issues of selectivity, the length of consultation cycles, criteria for countries on annual cycles, transparency, and a set of principles that would guide press information notices.

Mr. Kiekens made the following statement:

> It is better practice to adopt self-contained decisions, rather than half-complete documents that make explicit only part of the normative rules and incorporate the remainder in the form of reference to proposals contained in staff documents. Accordingly, I am proposing the following draft decision on the release of Press Information Notices for adoption by the Executive Board. [1]

Extending his remarks, Mr. Kiekens said that, in the section of the report to the Interim Committee on surveillance, the sharper focus on data issues was discussed. While he agreed that it was an important subject, a clear distinction needed to be drawn between data provision to the Fund in the framework of surveillance, on the one hand, and dissemination of data to the markets, on the other hand, which was not within the formal framework of the Fund's surveillance. For that reason, he would propose shifting all the comments in paragraph 17 on the dissemination standards to paragraph 22, where the issues of transparency and the need for the markets to have information to function well were discussed.

The Director of the Policy Development and Review Department replied that the staff believed that paragraph 22 should focus on the issue of Fund transparency. That paragraph dealt with openness in the context of the Article IV consultation process.

Mr. Kiekens explained that his proposal was linked to an observation he would wish to make concerning paragraph 22. That paragraph should be further developed, and in it a clear distinction should be drawn between the information for markets and the Fund's policy on transparency. What the Fund was doing at present needed to be separated from what it was

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[1] See Annex I

considering doing as a further step. The Fund disclosed its general policy advice at present; it might decide to disclose individual policy advice in the future. There was scope for making that distinction clearer in the text.

The Chairman suggested that the same effect could be produced by making paragraph 17 into two paragraphs.

Mr. Kiekens observed that in paragraph 20 of the report, a favorable comment was given on the assessment by Directors of staff-monitored programs. He wondered whether that presentation was sufficiently balanced. Perhaps the report should include the views of several Directors—views that had been contained in the summing up of the Board's discussion on that subject—that, in cases in which more Fund involvement was needed, but in which there was no immediate balance of payments need, the Fund should encourage precautionary Stand-By Arrangements rather staff-monitored programs.

The Chairman replied that the views of those speakers, as reflected in the summing up, could be included.

Mr. Kiekens commented that the proposed decision that he had presented to the Board at the outset of the discussion was a distillation of the understandings that had been reached during the informal discussion of the preceding Friday. It was based on the staff's proposed decision, but contained more precise wording where necessary.

The Director of the Policy Development and Review Department considered that the staff had used as a precedent for the proposed decision the decision that the Board had taken relating to the release of background papers on recent economic developments, which was a simple, straightforward decision of a sentence or so. The question was whether or not, in light of the agreement that existed on the principles, the details needed to be restated in the text of the decision.

The Deputy General Counsel observed that there were three basic types of decisions that came before the Board. One type spelled out all of the terms and conditions of a policy, turning it into a legal prescription. The decision on the Compensatory and Contingency Financing Facility (CCFF) was an example. Those decisions went to the heart of the Fund's functions, and members expected to know where they stood. That required a more formal decision.

The second type of decision was like that proposed in the staff paper, the Deputy General Counsel continued. It was a formal and complete decision, but it incorporated reference material that was readily found. In the current case, it referred to the understandings of the informal meeting, building on the summing up of the Acting Chairman at that informal meeting. Many of the Fund's decisions were in that form. The extract from the staff paper was treated as part of the decision.

The third form of decision was the summing up, the Deputy General Counsel went on. Some of the summing up was narrative and some was descriptive. From the lawyer's point of view, it was difficult to determine what was the descriptive part and what was not. Nevertheless, some of the major policies of the Fund, including the 1989 summing up on the debt strategy and the treatment of arrears, were incorporated in a summing up.

A more extreme view was that there should be no decisions, the Deputy General Counsel observed, although the Fund and the staff did not endorse that possibility. The choice between the various types of decisions depended on the occasion. In the current case, the staff believed that the simple form was adequate and legally correct. The question was the contents. If Mr. Kiekens's proposed decision were accepted, the question would arise as to whether the contents were coincidental, and, in particular, whether Mr. Kiekens's proposed decision meant the same thing as the staff's proposed decision.

Ms. Srejber made the following statement:

Information provided in today's additional material and in the Draft Report by you to the Interim Committee, reflect the basic thrust of what gradually has become a fairly broad Board consensus, in particular about the issuance of press information notices (although I have to say my constituency remains divided in its views on if these notices will be constructive or not, and hence on the wisdom of this measure).

I realize Board guidance has (already) been sought on some of the more difficult aspects of the proposal to establish a practice to release press information notices, but, nevertheless, wish to underline a few points.

While I will have fewer comments to your Draft Report to the Interim Committee the fact that today's document—in its total—is referred to in the Draft decision that establishes the new practice with press information notices and which appears on page 12, made me carefully review the text of the full document, and I have some remarks. Before mentioning them I would, however, like to state that I agree with Mr. Kiekens that a proper full decision is better than to refer to a staff document. Now to my remarks.

Regarding page 4, second paragraph in the document; there is indeed now an agreement on the basic structure of future press information notices, and that the text should follow as closely as possible the summings up, but I do not think it is proper to say that "editing would be kept at a minimum." I say this because I do not think that in what then follows—that highly market sensitive information—a priori can be limited to conceptually be thought of as only relating to exchange rate and interest rate matters—as the text assumes. There might well be other kinds of information that for a particular country will be regarded as market sensitive, and the situation might change from time to time. I would thus suggest that we exchange "minimum" for "limited" and put full stop thereafter and thus delete the rest of the sentence. The same change should be made on page 9, paragraph 23, in your Draft Report to the Interim Committee.

In the next paragraph, on page 4, I do not have remarks on what is said on page 4 about the timing of a consent from a member to release a press information notice, but I was wondering whether the Draft decision (on page 12) provides for the case mentioned at the end of the paragraph, i.e., that the Executive Director withdraws the consent to a release of a press notice at the very last moment, which presumably could be later than "at the time up to the circulation of the Chairman's summing up," as is the wording in the draft decision. Mr. Kiekens' proposal is clearer on this point.

My last remark on the document, page 4, relates to the expression chosen for the time that will elapse between the Board meeting and the release of a press notice, i.e., "shortly following the Board meeting," which I do not think fully reflects all the (practical) concerns Directors have expressed on this point on previous occasions, as well as the wish of many of us to build a provision of adequate flexibility into the process. The sequence of events is not very well captured by the expression in the last sentence that the press notice will "in any case not be issued before the summing up has been finalized" (of course not). Mr. Kiekens' proposal better captures the sequence of events.

Leaving the press note issue, in your Draft Report to the Interim Committee I think the text on page 8, paragraph 19 last sentence, in the effort to shorten has left out an essential part from the summing up of the Board discussions of the effectiveness of Fund surveillance of exchange rate issues namely (compare page 21, last paragraph) on "the Board being fully informed of the content of the discussions." Further on the same page, paragraph 20 on staff-monitored programs might have been cut a bit too short from the summing up of the Board discussion, and by leaving out the remark that a number of Directors expressed concern about the use of staff-monitored programs and thought members should be encouraged to use other arrangements (as well as the suggestion to develop guidelines), the paragraph might have got a slight bias of too broad an endorsement of staff-monitored programs.

Extending her remarks, Ms. Srejber said that she preferred Mr. Kiekens's separate, fuller decision. Regarding publication, Mr. Kiekens's formulation was more practical. It needed to be borne in mind that the decisions had to be transmitted to national capitals, and it was easier for the authorities to understand them if they were as self contained and self-explanatory as possible.

Mr. Daïri said that he preferred the decision suggested by Mr. Kiekens. Alternatively, perhaps the staff's decision could be retained, but with the extract of the staff report mentioned by the Deputy General Counsel attached to it.

Mr. Kafka stated that he could go along with Mr. Kiekens's proposal, but the simplest way would be to take the whole of the extract and incorporate it into the decision.

Mr. Coumbis said that he felt the same way as Mr. Kafka. He really had no preference between the two.

Mr. Donecker stated that he had a preference for Mr. Kiekens's proposal, because it illuminated the issue better. There should be a proper Board decision the text of which could be printed. The issues being dealt with by the decision were complex ones. It would be better to present the decision in a clear and straightforward way.

Ms. Lissakers said that she leaned strongly toward the argument that simpler was better. Otherwise, there was a risk that every Director would want to add one little detailed feature to the decision. She thought that the decision, although important, was not monumental, taking into account the Fund's other activities.

Regarding Mr. Kafka's proposal, the text included statements that were not particularly suited to a decision, Ms. Lissakers considered. Also, with regard to paragraph 2 of Mr. Kiekens's draft decision, she wondered about the implications of the statement that, in case of a disagreement about the text of the press information notice (PIN), either the Executive Director or the Managing Director could ask the Board to decide the matter. That would appear to put the Board in the position of having to negotiate the wording of every PIN in which there was a disagreement. Her understanding had been that there would be very limited editing of the PINs, which would follow the summing up as closely as possible. Only highly sensitive financial information would be deleted. Whether the information to be deleted was financially sensitive or not would be the only matter for the Board to negotiate. The PIN was supposed to reflect the summing up of the Board discussion, not the preferences of individual Executive Directors. The choice was either to accept in broad terms the release of the summing up of the Board discussion or to withhold it.

Mr. Shaalan stated that he could go along with Mr. Kiekens's proposal. It was more beneficial to adopt a self-contained decision. However, he would recommend a reordering of the two sentences in paragraph 2 of that decision, so that the paragraph began with the general statement that a country could give its consent to the release at any time, followed by the reference to the recommendation that members indicate ahead of the Board meeting whether or not they intended to issue a PIN.

Mr. Coumbis observed that the PIN would be composed of both a factual section and an evaluation section, and there might be scope for disagreement with respect to the latter.

The Chairman suggested that, to satisfy the concerns of Mr. Kiekens, the staff prepare a short note, for the use of the national authorities, on the procedure for PINs agreed by the Board.

Ms. Srejber commented that she had hoped that a decision could be formulated that both met the legal requirements and offered a full and clear explanation to national authorities of what the Board had agreed. She believed that Mr. Kiekens's suggestion met both those criteria.

Mr. Disanayaka said that he also would prefer a short decision. The Board should not tinker with the staff's proposed decision. Regarding the point raised by Ms. Lissakers, for reasons of simplicity, it might be stated that, in the case of a disagreement about the text of the notice, the Board shall take a decision. There was no need to go into detail on that point.

Mr. Daïri observed that Mr. Disanayaka's proposal would change completely the spirit in which the Board had approached the issue so far. The Board could not take a decision in that case, because the country concerned had the final decision to release or not to release a PIN. He would prefer that the matter not be brought to the Board at all.

Ms. Lissakers said that Mr. Daïri's interpretation changed the nature of what had been agreed, which was that the staff would consult with the Executive Director concerned with respect to limited editing to remove the most sensitive information from the summing up. If at that point the country concerned, through its Director, could not accept release of the summing up as a PIN, then it could say "no."

The Chairman stated that he would be extremely reluctant to involve the Board. He believed that it would be better to stay with what had been the spirit of the discussion so far.

Mr. Zoccali said that, as the Board would be setting a precedent, his preference would be for something along the lines of Mr. Kiekens's more self-contained decision. The exchange of views that he had just heard showed why it would be useful.

The Deputy General Counsel stated that, as a staff member, he was quite agnostic as to the outcome, but as a lawyer, he had a bias toward Mr. Kiekens's approach. However, it was important to remember that the understandings contained in page 4 of the staff paper did represent to be the consensus of the informal meeting. Mr. Kiekens's note followed very substantially those understandings, but there were two differences. One was that, at times, different words were used. For example, the staff's formulation of the decision, which reflected the summing up of the informal meeting, said that the Executive Board would consider whether or not the PIN accurately reflected the summing up, and, second, whether an omission from the PIN was justified because of its market-sensitive nature. Mr. Kiekens's formulation of the decision used different language and injected slightly different nuances.

Second, the Deputy General Counsel continued, there were additional points in Mr. Kiekens's draft decision that were not in the formulation of the staff. His suggestion would be to accept Mr. Kiekens's approach, with which the Legal Department had no difficulty, but that the staff work to produce something from the material in the wording of the summing up of the informal session.

Mr. Kaeser said that, for practical reasons like those raised by Ms. Srejber, he preferred Mr. Kiekens's approach. He also would be very reluctant to have the Board functioning as a kind of appeals court. If it were to do that, there would in practice never be an occasion for a country to decide not to release a PIN. He therefore preferred to keep the Board completely outside of that procedure.

The Chairman observed that Mr. Kaeser was going a bit beyond what had been the consensus before. As the Deputy General Counsel had noted, there was some flexibility in how the Board considered the matter of a disagreement about a PIN.

Mr. Zhang said that, in terms of the format of the decision, he could agree with the point of view of the Deputy General Counsel, but he had no strong views on the matter, and could support the consensus. With respect to the substantive issue, however, if Mr. Kiekens's formulation were adopted, the wording must be based on the language of the summing up of the informal session.

The Chairman considered that Mr. Zhang was suggesting retaining the form of the decision, which would be attached as an appendix to his report to the Interim Committee, but incorporate the wording of the summing up of the informal session within the text of the decision, in order to avoid reopening a discussion on each small detail.

Mr. Zhang confirmed the Chairman's understanding.

Mr. Kiekens said that he could not agree to that. He preferred to have a decision on which Directors had agreed on the wording. He could not agree to wording that had not been submitted to him to examine. It was necessary for all members of the Board, not just himself, to have a clear idea of what they were agreeing to. For example, he insisted on not changing the integrity of the reporting to the Executive Board, and he wished to see that reflected in the text of the decision. That was not in the text of the decision proposed by the staff.

The Chairman said that the possibility of releasing a PIN would not affect in any way the full-faith reporting to the Executive Board of the content of the Fund's consultations with its members. That was an important principle, but he was not sure that it had its proper place in the document at issue.

The Economic Counsellor noted that a sentence could be inserted to the effect that the summing up process would remain unaffected.

Mr. Bernes said that he endorsed the Economic Counsellor's suggestion. The staff could prepare a draft decision and perhaps return with it to the Board in the following week. He would have no problem if the last paragraph of Mr. Kiekens's text on the integrity of reporting to the Board were incorporated into it, which was a fundamental point to which he was certain that all subscribed.

Ms. Lissakers indicated her concurrence with Mr. Bernes's suggestion.

Ms. Srejber agreed that that could be a good way to proceed.

Mr. Donecker said that, following the informal discussion, he had thought that there had been general agreement that the Fund would have to be very careful about the procedure for issuing PINs. First, it would be necessary to differentiate between the summing up of a Board discussion and the draft of the PIN. The summing up must first be cleared by the Executive Director concerned, and through him, by the authorities concerned. Possibly in parallel, but probably a bit later, management's draft of the PIN would be proposed, and it would be given to the Executive Director concerned for transmittal to his authorities. The authorities would have a certain amount of time to agree to the PIN. If they did not agree, there would be no PIN. There should be a time limit on the authorities, however. He had understood that it was agreed that the time limit would be about seven working days.

The Chairman replied that Mr. Donecker's point was captured by the delay that the procedure specified of 5 to 10 working days following the Board meeting to ensure timeliness. In any case, the PIN would not be provided before the summing up had been finalized.

Mr. Donecker commented that the prescription that the PIN would be produced in a timely manner, but in any case not before the summing up was finalized, remained a bit imprecise, in his view. The finalization of the summing up and the issuance of a PIN could not be allowed to occur simultaneously.

The Director of the Policy Development and Review Department said that it usually took a few days to clear and finalize the text of a summing up. There was no intention to modify the process for clearing summings up at all. The staff was suggesting that an indicative target be set—of 5 to 10 days—for the issuance of the press information notice only after the summing up had been finalized. The sequence would be clearance and circulation of the summing up, drawing up of the PIN, with review of the PIN by the Executive Director concerned, followed by its release, assuming the authorities agreed to that.

Ms. Lissakers commented that she understood Mr. Donecker's concern that the authorities should have received the message from the Board contained in the summing up and had a chance to digest it before public notice was made. That should be the presumed courtesy extended to the member unless there was an overwhelming reason to do otherwise. However, she had been a bit concerned by other aspects of his formulation, which seemed to suggest that there would be two completely different documents. In fact, the PIN would be only a slightly changed version of the summing up for public consumption.

The Chairman agreed with Ms. Lissakers.

Ms. Srejber considered that the sequence of events that the Director of the Policy Development and Review Department had just laid out should be made clear in the text of the relevant decision and in the Chairman's report to the Interim Committee. The Board needed to make sure that the home authorities were given enough time to see both documents and to see what had been deleted from the PIN.

The Economic Counsellor said that the text could be amended to include a reference to a time period of from 5 to 10 days following the Board meeting and the communication of a summing up to the national authorities.

Mr. Kaeser said that he fully understood the concerns of his colleagues, and especially of Mr. Donecker. What he feared was that the Executive Directors would not clear the summing up in a timely manner. He would be compelled to discuss with his authorities the completion of the approval procedure as well as the substance of the summing up itself.

The Chairman suggested that, to be precise, the reference be made to 5 to 10 working days following the issuance of the summing up by the Secretary.

Mr. Shields observed that the indicative target at the beginning of the sentence was the crucial element. He would hope that the whole process could be done within 5 to 10 working days, including the formulation of the summing up. Because the authorities were not present at the Board meeting, they could not pass on the substance of the summing up, which was supposed to contain the message of the Board. The time between the summing up, the Executive Director's approval of the summing up, and the agreement on the wording of the PIN should be inconsequential, in his view. The part of the summing up that might be seen to be market sensitive could be set out in square brackets. A general rule of from 5 to 10 days should be adequate.

The Chairman said that he agreed with Mr. Shields. He wondered about the usefulness of Executive Directors' consulting with their authorities on the contents of a summing up while the authorities had not attended the Board meeting.

Mr. Kiekens remarked that exactly when a summing up was finalized was somewhat ambiguous under present procedures. He recalled an incident—perhaps exceptional—when the summing up, which had been agreed between the Secretary and the Director concerned, subject to a change in the original text by the Director, had been objected to by another Executive Director, who had then raised the issue of the change. He wondered what would have happened, in that case, had a PIN been issued based on the first version of the summing up. It would be somewhat strange to circulate a second PIN to say that the first PIN was a mistake. There had been cases in which the summing up had been changed at the request of an Executive Director. The implications of that needed to be considered.

The Chairman pointed out that such a change was subject to the concurrence of the Board.

Mr. Kiekens replied that the Board could exercise its right to change a summing up, but if, under the new procedures, a PIN was circulated before the Directors had seen the final summing up, he wondered how a change in the summing up could be reflected in the PIN, given that the PIN had already been issued.

The Director of the Policy Development and Review Department said that Mr. Kiekens's concern could be taken into account by noting that, as was currently the case, the Chairman's summing up of the Board's discussion would be provided to the concerned Executive Director for review following the Board meeting, and that the review of the draft PIN by the Executive Director for the country concerned would take place following the circulation of the summing up. There would thus be no question that the summing up process remained unaffected, and the sequence was clear.

Mr. Kiekens said that, with the PIN process, it would be even more important to define exactly when the summing up was finalized and no longer subject to amendment. Perhaps it should be made clear that the summing up was deemed to be final by the end of the working day following its actual circulation to Executive Directors. A fair, albeit limited, amount of time should be allowed for Executive Directors to have a look at the circulated summing up. A summing up circulated as a document to the Board and staff was not final if Directors had the opportunity, as they had had in the past, to raise the issue again in the Board and to recommend changes.

The Acting Secretary stated that the summing up was final when it was issued as a Board document. On very rare occasions, Executive Directors had requested changes in the summing up after its issuance as a Board document and circulation to Executive Directors. In that case, the matter was returned to the Board for its concurrence, after which a revised summing up would be issued, with revisions clearly indicated. Directors had the right to bring any issue before the Board. Reopening the summing up after its issuance occurred rarely.

Mr. Al-Tuwaijri said that he was concerned about opening up again the discussion on the issues that he had thought were closed. He could agree to the formulation given by the Director of the Policy Development and Review Department.

Mr. Kiekens observed that one of the differences between the wording of the staff's decision and his own was that the staff's wording was more precise about the fact that the Board would have to take a decision on the issue, not just consider it, as he had it in his own formulation.

The Deputy General Counsel considered that it was not for the Board to approve the text of a PIN; it was for the Board to assist the management when there was a difference of view between the management and the Executive Director, acting on behalf of a member, as to whether the considerations he had mentioned had been met. The alternative was for the Executive Director to be instructed by the member not to cooperate and withdraw the consent. It was a sensitive question, and somewhat theoretical at the present stage. It was important to recognize that the role of the Board was somewhat limited.

Mr. Kiekens observed that, once a country began releasing PINs, it would be forced by market expectations to continue to do so. If there was a disagreement concerning the text, and on whether or not a particular phrase was market sensitive, it might be very important for the country to have a decision, and if an agreement was not possible with the Managing Director. That was, in his view, the spirit of the agreement that had come out of the informal session. The Board would decide the question. Of course, the Director could always say that he was not pleased with the decision, and that, therefore, the country would not release the PIN. He did not believe that the Board should simply give guidance to the Managing Director; the Board should decide.

The Chairman said that he still hesitated about having the Board decide on the content of a PIN.

The Director of the Policy Development and Review Department said that he did not believe that it had been the intention to have what amounted to an appeal of a Board decision on a text. The Board might well decide on a text, but if the Executive Director concerned did not agree with it, the Director could withdraw his consent even at the last moment. Only if management and the Executive Director had divergent views about the conclusions drawn during the discussions, might there be a need to appeal to the Board for clarification.

Mr. Kiekens stated that he wished to maintain his text. He considered it essential that the Board not surrender its power of decision in the matter.

Mr. Guzmán-Calafell commented that his understanding on the role of the Board was similar to that of Mr. Kiekens. However, he wondered what would happen if there were a disagreement between management and the country authorities about the sensitivity of a statement included in the PIN, and then the issue was brought to the Board for consideration. If the Board gave the reason to the member country, he wondered what the implications would be, and in particular, whether management would follow the advice of the Board, even though it was not obliged to do so.

The Chairman responded that by tradition the Chairman of the Board consulted with the Board at the end of the Board discussions. The summings up nevertheless were intended to convey his sense of the meeting. In very exceptional circumstances, after the Board had agreed on a summing up, and the summing up had been issued to the Board, an Executive Director might raise an objection to the summing up, raising the possibility that the Board might return to the matter and consider the summing up again. That happened only rarely—once every decade or so—and it was not an efficient use of time to try to nail down a procedure to deal with something that happened only rarely.

Mr. Guzmán-Calafell said that his real concern was with a situation in which there was a difference of view regarding whether or not something included in the summing up was market sensitive, and therefore should or should not be included in the PIN. Assuming that the Board would decide on that question, he wondered what would happen next.

The Chairman replied that the decision dealt with the substance of the PIN, which should be the same as the substance of the summing up.

Ms. Srejber said that she recalled that some speakers had raised the same concern as Mr. Guzmán-Calafell at the informal meeting. Such a difference of views should be resolved by the Board, in her view. It was important to lay the ground rules very clearly for how such a matter would be dealt with, even if, as the Director of the Policy Development and Review Department had noted, the eventuality was remote. She did not recall that anyone had had a problem with that contention at the informal meeting.

The Director of the Policy Development and Review Department commented that he did not believe that whether or not the Board was going to decide on a text had been drawn as starkly at the informal meeting as it was being drawn at present. He was quite sure that Mr. Kiekens's phrase had never been used, however. There had been a discussion about a double veto, in the sense that the Executive Director for the country had the right to withdraw his consent until the last minute. There was also the issue of who was in control of the PIN process. Management needed to assure itself that the PIN truly reflected the Board discussion. At the end of the discussion at the informal meeting, the suggestion had been made that any disagreement—which it was to be hoped would occur rarely—between the country concerned and management regarding the text of a PIN would be brought to the Board for the Board to consider—but not for the Board to take a decision on a text. The idea was that both parties would wish to hear the reaction of the Board.

The Chairman observed that the Board could change its views, but he was not sure whether that would be justified.

Ms. Lissakers remarked that a Director could bring any problem to the Board. In the extremely rare situation that Ms. Srejber and Mr. Kiekens were concerned about, it would be perfectly understandable for a Director to say that, while there was a desire to release a PIN, there was a disagreement on the text, and that the Board's view on the matter was consequently being sought. An overly detailed decision to take that circumstance into account should be avoided, in her view. Giving to the Board the responsibility for deciding on the specific language of the PIN would put in train a process that could in fact become routine and intolerable in terms of the cumbersomeness of the process, which would defeat what the Board was trying to achieve. It was within the Board's authority to decide such matters in any case, so the option of appeal already existed.

The Director of the Policy Development and Review Department, replying to a question from Mr. Coumbis, said that the indicative target—not a hard rule—would be to release the PIN 5–10 days following the Board meeting, to ensure timeliness of the information. Responding to a question from Mr. Donecker, he explained that the Executive Director concerned would have, if he needed it, from three to five working days to look at the PIN and decide whether or not to release it.

Mr. Zoccali observed that the text made it clear that the member concerned must consent to the release of the PIN, and that release of the press information notice would be voluntary.

The Deputy General Counsel confirmed Mr. Zoccali's understanding. Release of a PIN would be voluntary. The member could consent in advance, without pressure, to release, or it could consent later. The member could also withdraw the consent.

Ms. Srejber said that she could agree that the text of the PIN should follow as closely as possible the summing up, but it was not proper to say that editing would be kept to a minimum. She did not believe that what was defined as highly market-sensitive information that could be deleted would in practice be limited to Fund views on exchange rate and interest rate matters in selected circumstances. There might well be other kinds of information in summings up which, for a particular country, also would be market sensitive, and the definition of market sensitivity could change from time to time. She would therefore recommend that the text be revised to indicate that the PIN would follow as closely as possible the summing up of the Board discussion, and editing would be limited. The reference to restricting deletions to exchange rate and interest rate matters could be removed. If that was acceptable to the Board, parallel changes should also be made in the Chairman's draft report to the Interim Committee.

Mr. Kiekens said that he agreed with Ms. Srejber. Many issues could be considered market sensitive.

The Chairman observed that in that case, the entire text of the summing up could be seen as sensitive. That gave him all the more reason to stay with the text given by the staff.

Mr. Shields said that he agreed with the Chairman. The present wording allowed for the sort of eventualities that Ms. Srejber had in mind. There could be exceptional circumstances in which material other than exchange rate and interest rate matters would be removed from a PIN; that could be accommodated within the current wording.

The Chairman suggested that the reference be to the fact that editing would be kept to a minimum, with only highly market-sensitive information, consisting mainly of Fund views on exchange rate and interest rate matters in selected circumstances, being removed. That would allow for the possibility of other types of information if the need arose. Perhaps that would meet the concern of Ms. Srejber.

Ms. Srejber said that she was not sure whether it was really necessary to delineate an example in the text. She could think of things that would be highly market-sensitive in countries with less developed markets that had nothing to do with the exchange rate.

Ms. Lissakers observed that there was a need for some leeway to accommodate exceptional circumstances. At the same time, the Fund could not, on the one hand, promise to give the markets the information that they needed to function well, and on the other hand, say that all the interesting bits of information would be removed. Obviously, the Fund did not want to trigger a huge tidal wave of investor reaction, but it should be clear that the intent was to limit the editing. She believed that the Chairman's formulation allowed sufficient flexibility for common-sense decisions to be taken on other issues, issues that might in fact trigger the kind of event that the Fund wanted very much want to avoid.

Mr. Kaeser said that he shared the view of Ms. Lissakers. He wondered whether the reference to highly market-sensitive information should be removed, because Ms. Srejber had implied that even countries with no markets had sensitive information.

Mr. Daïri said that he agreed with Mr. Kaeser, especially after hearing Ms. Lissakers's latest remark, but for a different reason. The Fund could not say, on the one hand, that it wished to give information to markets, and then, on the other hand, say that any market-sensitive information would be withheld.

Ms. Lissakers said that she preferred to retain the Chairman's formulation.

Mrs. Guti said that she had strong sympathies for Ms. Srejber's proposal. She saw no need to give examples of what the sensitive information was going to be. In any case, the Executive Director and the authorities concerned would raise objections if they believed that certain information was sensitive, even if it were not given as an example. If there was continuing pressure to include such information anyway, the authorities would probably withdraw their consent to release the PIN.

The Chairman said that there were many things that might be seen as extremely sensitive in the eyes of the government—such as the Fund's assessment of the level of the budget deficit—which would leave the message entirely misleading if they were removed from the summing up. The examples given would provide some guidance. His formulation would allows for the introduction of other, well-justified exceptions, which should meet the concern of Ms. Srejber.

Ms. Srejber said that she could accept the Chairman's formulation, albeit reluctantly, and with the knowledge that the minutes were also part of the interpretation of the decisions.

Mr. Kiekens commented that the current text of the decision made it clear that the first part of the PIN—containing the factual material on the country concerned—would be included in the staff report for the Article IV consultation, in order to give the authorities an opportunity to comment on it. He wondered why the opportunity to comment on it was being reserved only for the authorities; surely Directors could also comment on it during the Board discussion.

The Chairman agreed to revise the text to make it clear that the opportunity to comment would be open to Directors in addition to the authorities.

Mr. Daïri said that the text noted that the Director would have the right to withdraw his consent until the last moment, but he wondered how that moment should be defined. He wondered whether any deadline past the 5 to 10 day period had been mentioned. It should be made clear that the formal approval of the Director concerned was needed before the PIN could be released. The PIN could not be released under a lapse of time procedure.

The Deputy General Counsel said that there was the problem of trying to decide in a general way when it would no longer be possible to stop the issuance of a PIN once it had been duly approved. It was to be hoped that that would happen only very rarely, and in that vein, the Secretary would have to deal with it on a case-by-case basis. On the procedural aspect, the consent of the Executive Director concerned, in writing, would be necessary for the release of the PIN.

The Chairman commented that the Director would sign off on the PIN in the same way that he currently signed off on the summing up.

The Deputy General Counsel added that the signature of the Director might not be necessarily on the PIN itself, but perhaps on an accompanying document of some kind.

Ms. Lissakers commented that such a procedure was a little open-ended. A Director could simply withhold his signature for a number of months. Presumably there would be a decision point, at which it could be determined whether or not a PIN would be released. The Fund might look foolish were the PIN to be released six months after the Board discussion, when world developments might have evolved in a way very different from what the Fund had predicted. There needed to be some closure on the matter. Perhaps the staff could make a judgment about what should be considered a reasonable amount of time. She presumed that the time frame that had been specified—of 5–10 working days—could give the staff some guidance in that respect.

The Economic Counsellor agreed that it was to be hoped that the procedure would conclude within about 10 business days.

Ms. Srejber said that the draft decision was not very clear about the time period within which the consent to the release needed to be given. The text said that the Director could communicate his or her consent at any time up to the circulation of the Chairman's summing up. If a Director withdrew his consent or wished to think about the matter a bit longer, presumably that could be later than the time of circulation of the Chairman's summing up.

The Deputy General Counsel replied that the staff would take that concern into account as it worked on a redraft of the text.

Mr. Daïri said that he hoped that his concerns would be taken into account in the redraft as well. He was dissatisfied with the present draft.

The Chairman reassured Mr. Daïri that his concerns would be taken into account.

Mr. Shaalan said that he supported the decision concluding the biennial review of surveillance, as contained in the report.

The Chairman commented that he took it that the Executive Board concurred with the view of Mr. Shaalan.

Mr. Kafka, referring to the Draft Report of the Managing Director to the Interim Committee on Surveillance, said that paragraph 20 raised the point that staff monitoring should require that the policy program was consistent both with the authorities' stated objectives and with the thrust of the Fund's advice. It seemed to him that the latter condition might go too far. It was not inconceivable that a program was not in agreement with the thrust of Fund advice but was, nevertheless, consistent with the authorities' stated objectives and with a reasonable policy. Otherwise, the assumption would be that anything that was not in agreement with the thrust of Fund advice was unreasonable, which went too far.

The Director of the Policy Development and Review Department observed that that issue had been raised by Mr. Kafka in an earlier discussion. The fact was that there was effectively no clear standard for staff-monitored programs; they did not have to meet the standards of upper credit tranche conditionality or the other traditional standards that might apply. The Board had suggested that if the staff was going to monitor the country's policies, they should be policies that were consistent with the objectives that the staff had judged to be needed and appropriate. The staff would base its judgment on the consistency of the policy program and with the Board's previous advice to the country.

The Chairman pointed out that the wording of the text relating to staff-monitored programs in the report to the Interim Committee reproduced exactly what appeared in the summing up by the Chairman of the meeting of March 28, 1997.

Mr. Kafka said that he felt uncomfortable not agreeing with his colleagues, but to assume that anything that the Fund did not endorse must be unreasonable went a little far.

The Chairman said that the particular passage to which Mr. Kafka had drawn attention need not be interpreted in the way that Mr. Kafka had interpreted it.

Mr. Kafka remarked that he remembered that the Board had had some discussions about what would happen if a country chose to have a particular exchange rate regime. There could be differences of opinion on that point. He wondered whether the Board should refuse to monitor a program because the country had chosen one exchange rate regime rather than another.

The Chairman observed that the staff was generally agnostic as to the choice of exchange rate regime. He would tend not to read the passage quite as rigidly as Mr. Kafka had, in any case.

Mr. Kafka said that he could accept the Chairman's reading.

Ms. Lissakers recalled that a number of Directors had expressed some concern about what exactly staff-monitored programs were and how they should be conducted. The purpose of staff-monitored programs and how they should be construed needed to be examined. Perhaps the outside evaluators should be asked to look give that further consideration.

The Chairman pointed out that Ms. Lissakers's point was captured in the summing up by the last sentence of the paragraph on staff-monitored programs, in which it was stated that a few Directors suggested that the development of Board-approved guidelines on staff-monitored programs could be useful. The Board would come back to that issue in the following few months.

Ms. Srejber stated that, with respect to the end of paragraph 19, on the issue of exchange rate surveillance, an essential part of the summing up of the Board discussions on the effectiveness of Fund surveillance issues had been omitted. The text should include the fact that Directors had generally agreed that the effectiveness of Fund surveillance depended on frank discussions between the authorities and the staff, and on the Board being fully informed of the content of the discussions.

The Chairman agreed to include the sentence referred to by Ms. Srejber.

Mr. Donecker said that he wondered whether it was necessary to include the qualifier "reasonably" in saying that Board deliberations would have to continue to be reasonably assured.

The Chairman agreed to omit the word "reasonably."

Ms. Lissakers, referring to paragraph 21 on regional surveillance, said that she had been surprised to find that the word "Board" had been dropped from the second sentence. The Board should not leave the impression that the Fund could engage in the subject of the most important change in the international monetary system in 25 years only in informal seminars, and not in formal Board discussions.

The Chairman agreed to reinsert the reference to the Board.

Mr. Kiekens, referring to paragraph 22, suggested that the order of the paragraph be rationalized. The need for well-functioning markets and for information for the markets could be dealt with first, then the reference to what the Fund had done to provide the information to the markets could follow, and ending with the reference to the data dissemination standards. Then the Fund's present policy on transparency could be laid out, contrasted with the further steps the Fund was taking to move beyond the disclosure of its general policy advice to disclosure of individual country advice, under certain circumstances. The following paragraph could describe what the Board had decided in that direction.

The Chairman said that he agreed with Mr. Kiekens on the usefulness of having a substantial paragraph in the report dealing with transparency, which had been a dominant feature of the review of surveillance. He could agree in principle to the reordering suggested by Mr. Kiekens.

Ms. Lissakers said that she supported Mr. Kiekens's suggestion. She would like to have reflected in paragraph 19 the fact that at least some Directors felt that greater dissemination of Fund advice would enhance the effectiveness of the surveillance process.

The Chairman agreed to Ms. Lissakers's suggestion.

Mr. Kiekens noted that paragraph 22 referred to the idea that further openness in the Article IV consultation process was needed, with the aim of making Fund surveillance more effective. He would debate the validity of that idea. The paragraph also said that Directors generally recognized that comprehensive information was needed for the efficient functioning of markets. Comprehensive information would also make surveillance more effective, which in turn would assist with maintaining market stability.

The Chairman said that perhaps a reference to the Fund's efforts in encouraging greater candor and frankness in its dialogue with member countries should be included in the paragraph to which Mr. Kiekens had referred.

The Director of the Policy Development and Review Department pointed out that that reference appeared at the end of paragraph 19.

Ms. Lissakers suggested that the redundancy could be removed by dropping the last sentence in paragraph 22. It was to be hoped that one of the purposes of greater transparency on the part of the Fund was that it would contribute to candor and frankness in public policy discussions in member countries.

The Chairman said that that was the ultimate objective, but it could be reached indirectly.

Mr. Kafka said that he believed that the last sentence of paragraph 22 should be retained.

The Chairman agreed to retain the sentence.

Mr. Donecker said that, in the penultimate sentence, the number of Directors described as having emphasized the importance of the confidentiality of the dialogue between the Fund and its members should be changed from "many" to "most." He believed there was a general feeling on the part of the Board about the importance of the confidentiality of the dialogue.

The Chairman agreed to Mr. Donecker's suggestion.

Mr. Shaalan, referring to paragraph 23, said that he took it that it would be indicated in the paragraph that the Director had the option of withdrawing his consent to release a PIN at any time.

The Chairman confirmed Mr. Shaalan's understanding. Replying to a question from Ms. Srejber, he also confirmed that changes made in the text of the draft decision relating to the issuance of PINs would be reflected as well in the parallel parts of the report to the Interim Committee.

Mr. Donecker said that he wondered whether, at the end of the first sentence in paragraph 23, the statement that PINs represented an important step forward could be replaced by the statement that the PINs would enhance the transparency of the Fund. He believed that his colleagues could support that.

The Chairman agreed to accept Mr. Donecker's formulation, which was more precise.

Mr. Kiekens said that, in the penultimate sentence of the same paragraph, the qualification "in the first instance" was superfluous.

The Chairman agreed with Mr. Kiekens.

Mr. Guzmán-Calafell, referring to paragraph 24, observed that reference was made to the fact that in a number of cases there would continue to be an expectation that a background paper on recent economic developments would be prepared every other year. In that vein, the paragraph should state as that in deciding the scope of background documentation, the staff would consult closely with the member concerned.

The Chairman agreed with Mr. Guzmán-Calafell's suggestion.

He had noticed that the last sentence of the paragraph could give the wrong impression that the Fund was more concerned about saving resources than carrying out its surveillance responsibilities effectively, the Chairman added. Perhaps that sentence should be omitted.

Mr. Shaalan agreed with the Chairman. The sentence should be dropped.

Mr. Shields said that he recalled that there had been great disappointment that a large numbers of countries would still have an annual consultation cycle. He would therefore not like the sentence to which Mr. Shaalan and the Chairman had referred to disappear entirely. Perhaps the reference should be to the idea that Directors urged a bolder approach; that would also solve the problem of the Fund appearing to be overly concerned about its administrative budget.

The Chairman said that he also had observed that so many countries would continue to be on the annual cycle. At the same time, the quality of surveillance was of the essence, and he would not like to introduce a trade-off between resources and the quality of surveillance.

Mr. Shields said that he agreed with the Chairman.

The Chairman suggested that the sentence read: "while emphasizing the utmost importance of the quality of surveillance, Directors urged a bold approach."

Mr. Shields agreed with the Chairman's formulation.

Mr. Shaalan said that he preferred the Chairman's original proposal to delete the sentence completely.

Mr. Daïri said that he supported the Chairman. However, at the beginning of the paragraph, instead of saying that greater use should be made of longer consultation cycles, it would be better to say that more flexibility should be exerted in the consultation cycle to achieve more efficiency.

The Chairman said that it was nevertheless important to capture the idea of the lengthening of the cycle, which was consistent with what the Board had discussed. At the same time, the quality of the surveillance needed to be maintained. Perhaps it would be better to drop the last sentence after all.

Mr. Daïri observed that in the last part of paragraph 24, there was a reference to the recourse to the background paper on recent economic developments for the smaller developing country members. It would be better to say that, for many developing country members, such papers often represented the only major source of comprehensive information. Otherwise, the impression was that the problem lay only with the very small countries, whereas it was, unfortunately, rather widespread.

The Chairman accepted Mr. Daïri's suggestion.

Mr. Kafka said that he wondered whether something could be done to remove the doubtless unintended implication that background papers on recent economic developments were not of any use for the advanced industrial countries.

The Chairman said that that was not the implication, but perhaps the reference to the smaller developing countries in that sentence should be removed.

Mr. Daïri said that he could not agree to such a change. The idea should be that the background documentation was much more useful for the developing countries in general than for developed countries, on which there was already much research and analysis available.

The Chairman explained that the reference would be to the fact that some Directors had suggested that the appropriate countries for which background papers on recent economic developments could be curtailed were the larger industrial economies, on which there were many other sources of high-quality economic analysis.

Mr. Kiekens, referring to paragraph 25, on the scheduling of the next biennial consultation review, suggested that the last sentence be modified to make it clear that Directors would resume the six-monthly review of members' policies in the period before the next review. At the very end of the Managing Director's report to the Interim Committee, he would suggest saluting the Interim Committee, by saying that the Interim Committee's Declaration on Partnership for Sustainable Global Growth served as an important general framework for members' policies in the context of surveillance.

The Chairman took note of the concurrence of the Board in Mr. Kiekens's suggestion concerning the reference to the Declaration on Partnership for Sustainable Global Growth.

Mr. Shields said that he was not sure whether he could accept the first of Mr. Kiekens's two suggestions. Perhaps the question of the six-monthly reviews should be left open, and in that vein, the present wording was appropriate. The Fund should not formally commit itself to anything.

The Chairman suggested that the concern of Mr. Shields be taken into account, and that the sentence remain as drafted.

A revised decision on the release of PINs would be circulated to Directors for approval on a lapse of time basis by close of business on the following Wednesday, the Chairman said. The staff would amend the report to the Interim Committee to make sure the wording was consistent with the decisions.

The Executive Board took the following decision:

1. The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended. The next review shall be conducted no later than April 15, 1999.

2. The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted no later than April 15, 1999.

Decision No. 11477-(97/38), adopted
April 15, 1997

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/97/37 (4/14/97) and EBM/97/38 (4/15/97).

3. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 95/102, 95/108, and 95/116 are approved.

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director and by an Advisor to Executive Director as set forth in EBAM/97/53 (4/11/97) and by an Assistant to Executive Director as set forth in EBAM/97/52 (4/9/97) is approved.

APPROVAL: March 19, 1998

REINHARD H. MUNZBERG
Secretary

DRAFT DECISION ON THE RELEASE OF PRESS INFORMATION NOTICES

On the completion of an Article IV consultation, the Fund may release a Press Information Notice reporting the results of the consultation in accordance with the following rules:

Paragraph 1. Content

The Press Information Notice will be brief (3–4 pages) and will have two sections:

(i) A background section with factual information on the country's economy, which will include a table of economic indicators. When possible, a draft of this background section will be included in the staff's report to the Executive Board, which will give the authorities and the Executive Board the possibility for early review.

(ii) The Fund's assessment of the country's economic prospects and policies. This assessment section will correspond closely to the summing up of the Board discussion. Any editing will be minimal minimum and will aim primarily at removing highly market-sensitive information.

Paragraph 2. Consent To the Release of a Press Information Notice

The country concerned must consent to the release of every Press Information Notice. Consent to the release on any occasion does not eliminate the need to obtain a new consent on any later occasion. Neither the Managing Director nor the staff will exert any form of pressure to obtain countries' consent, and Fund members are invited to observe similar restraint.

It is recommended that members indicate, ahead of the Board meeting, whether they intend to consent to the release of a Press Information Notice. A country can give its consent to the release of a Press Information Notice at any time.

The draft of the Press Information Notice will be submitted to the Executive Director of the country concerned for review. In case of a serious disagreement about the text of the notice, either that Executive Director or the Managing Director can ask the Board to decide on the text of the Press Information Notice.

The Executive Director of the country concerned can withdraw the consent to the release of the notice at any time, even after the Board has made a decision as mentioned above.

Paragraph 3. Timing of the Release

To ensure the timeliness of the information, the Press Information Notice will be released shortly after the summing up has been finalized. This will normally occur 5 to 10 working days after the Board meeting.

The process of finalizing the summing up will remain unaffected. As is currently the case, the summing up will immediately be provided to the concerned Executive Director for his review. A summing up is deemed to be final by the end of the working day following its actual circulation to Executive Directors.

Paragraph 4. Integrity of Reporting to the Executive Board

The possibility of releasing Press Information Notices will not affect in any way the full faith reporting to the Executive Board on the contents of the Fund's consultations with its members.