January 23, 2001
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# INTERNATIONAL MONETARY FUND

## Minutes of Executive Board Meeting 98/74

9:30 a.m., July 10, 1998

### Contents

**Executive Board Attendance**

M. Camdessus, Chairman
A.D. Ouattara, Acting Chairman
S. Sugisaki, Acting Chairman

| **Executive Directors** | **Alternate Executive Directors** |
|---|---|
| A.A. Al-Tuwaijri | |
| T.A. Bernes | C.X. O'Loghlin |
| | M. Askari-Rankouhi, Temporary |
| | J. Chelsky, Temporary |
| | W. Szczuka |
| | S.J. Schaad, Temporary |
| B. Esdar | W. Merz, Temporary |
| | A. Giustiniani, Temporary |
| | G. Vigliotti, Temporary |
| | J.P. de Morais |
| | O.-P. Lehmussaari |
| A. Kafka | |
| W. Kiekens | J. Jonáš, Temporary |
| | B.S. Newman |
| | M. Sobel, Temporary |
| J.-C. Milleron | N.R.F. Blancher, Temporary |
| | M. Daïri |
| | A. Lushin |
| | I. Zakharchenkov, Temporary |
| G. O'Donnell | H. Hagan, Temporary |
| A.S. Shaalan | M.H. Elhage |
| | A.G. Karunasena |
| G.F. Taylor | |
| J.J. Toribio | |
| J. de Beaufort Wijnholds | |
| K. Yao | K. Kpetigo, Temporary |
| Y. Yoshimura | Hinata, Temporary |
| | C. Harinowo |
| Zhang Z. | Wang X., Temporary |
| A.G. Zoccali | N. Eyzaguirre |

R.H. Munzberg, Secretary
A.S. Linde, Acting Secretary
A. Mountford, Acting Secretary
N. Hairfield, Assistant
K. Fitchett, Assitant

**Also Present**

IBRD: E. Somensatto, Europe and Central Asia Regional Office. Office in Paris: C. Brachet. African Department: C.A. Francois. Bureau of Computing Services: E. Kahn. European I Department: M.C. Deppler, Director; J. Canales-Kriljenko, R.A. Feldman, H.M. Flickenschild, H.B. Le, A. Leipold, L.J. Lipschitz, H.J. Temprano Arroyo, R.N. van Elkan. External Relations Department: S.J. Anjaria, Director; P.C. Hole, Deputy Director; L. Aylward, F. Baker Meio, P.J. Bradley, R.R. Brauning, D.M. Cheney, S.W. Kane, I.S. McDonald, J. Morrison, G.P. Newman, L.-M.R. Newsom, E. Ray, L. Wallace. Legal Department: R.L. Weeks. Middle Eastern Department: H.P.G. Handy. Monetary and Exchange Affairs Department: V. Sundararajan, Deputy Director; W. Coats, C.A. Enoch. Policy Development and Review Department: T. Leddy, Deputy Director; J. Hicklin, J.E. McHugh, Y.A. Metzgen, K.I. Sakr. Secretary's Department: S. Bhatia, P. Gotur; M.J. Miller, B.A. Sarr. Western Hemisphere Department: F. van Beek. Office of the Managing Director: M. Cross, Personal Assistant; E. Brau, B.V. Christensen, J.A.P. Clément, T.J. Hill. Advisors to Executive Directors: L.J.F. Erasmus, P.M. Fremann, C.M. Gonzalez, R.J. Heinbuecher, A.R. Ismael, M.F. Melhem, H. Mori, H. Ogushi, A.R. Palmason. Assistants to Executive Directors: A.S. Alosaimi, S.A. Bakhache, J.G. Borpujari, K.S. Brownlee, M. Budington, D. Chen, M.A. Cilento, H.W. Cocker, A.L. Coronel, D. Fujii, M.A. Hammoudi, O.A. Hendrick, J.K. Honeyfield, K. Lai, J.P. Leijdekker, M. Nemli, H. Paris, L. Pinzani, T. Presečan, S. Rouai, A.W. Scoffier, R.J. Singh, M. Vismantas, A.G. Yakub, Zubir bin Abdullah.

## 1. FUND'S APPROACH TO EXTERNAL COMMUNICATIONS—NEXT STEPS

The Executive Directors considered a staff paper on the next steps relating to the Fund's approach to external communications (SM/98/153, 6/22/98).

Mr. Wijnholds submitted the following statement:

Let me note from the outset that I was certainly happy to have this paper. It recognizes the importance of the Fund's external communications policy, and it offers a refreshing array of concrete suggestions for improvement. Although the paper is well-written, I did have the sense that one step was skipped in the argumentation. The paper moved from 'what are the purposes' to 'how the Fund's approach has evolved'. What I missed here was an assessment of the criteria which our external communications need to meet in order to attain these purposes, followed by a frank assessment of how these criteria have been met to date. Such an analysis might have alerted us to possible weak spots in our communications, and could thus have enabled us to focus and prioritize future efforts. Let me mention two areas which appear to be somewhat underexposed in the paper.

First, I would have liked to see a more focused assessment of how the Fund's credibility has been affected by our external communications. I presume that 'maintaining the Fund's credibility' is a primary criterion against which to assess the efficacy of our communications. Especially given the power of the financial markets, the credibility of our assessments is an important determinant of the effectiveness of our surveillance. It would be desirable for outside consultants to further examine this issue.

Second, the paper elaborates usefully on the roles of the staff and the Executive Board, but could have looked further into the roles of Management and member states. With regard to the former, it would have been helpful, for instance, if a preliminary evaluation of Management's external communications in the Asian crisis had been included. With regard to member states, I would have liked to see a more in-depth analysis of how authorities portray their position vis-à-vis that of the Fund. As the staff paper notes, the 'scapegoat model' may have outlived its usefulness. If we agree that ownership and accountability are probably more effective, we will not only have to look at our own external communications, but also at that of the national authorities.

I do recognize that both these issues are sensitive. However, I would think that if we do not raise these ourselves, they are bound to come up once we invite outside consultants.

Press releases

A closer look at the above issues would probably soon have focused our attention on Management press releases. These statements, given that they are initiated by Management and do not require the Board's consent, are always positive in tone. However, the fact that they can only be positive and upbeat appears to be a handicap. As I mentioned on previous occasions, I wonder what an outside observer would think if one would put all press releases on, say, Indonesia together over the past six months. It would probably look as if everything has been going very well. How does this affect the Fund's credibility? Similarly, I have wondered what the impact is of statements like those that were made recently on Russia, where it was disputed that the country was in crisis. It may well be that we are reaching the point where an upbeat press statement from Management is at best discounted and at worst seen as an indication that something is actually wrong. Either way, the Fund's credibility would be dented.

Having said this, I do recognize that this is merely a first step in our reform of the Fund's external communications policy. Let me just offer one or two initial thoughts on how we might be able to improve on current practices. First, it would be highly useful if we could substitute some of the press releases for PINs. After all, PINs do not only have to be positive, but can be balanced. Although this is not on today's agenda, let me say that I am therefore in favor of releasing PINs for program discussions. To avoid confusion, this would mean that we should not have the usual press release on top of that. Second, if there is no Board meeting to which a PIN can be attached, it is of course logical to issue a press release from Management. However, perhaps it is better then to adopt a more neutral and informative tone. If we do not have the choice of balancing praise with criticism, perhaps it is better in some cases to simply refrain from being normative. Markets and the public have other sources of information, and we can not assume that they will take our word for it if a certain package of measures deserves to be 'welcomed'.

Next steps

With regard to next steps, I first of all welcome the suggestion to have a more in-depth review by outside consultants, followed by a Board meeting. While noting that I am overall very much in favor of the various staff proposals put forward in the paper, let me just provide some comments on a number of them.

* In general, it seems to me that much can be achieved with relatively little extra innovation or without divulging more information. Although I have always been in favor of more openness, a more effective external communications does not necessarily hinge on that. As the short survey shows, there are three important steps we can already take now. First, we need to simplify our language. Second, in order to be effective we need to repeat our message. Third, it is crucial to better market the 'media products' which we already have. All this suggests that much more can be done with the information which is already being divulged.

* Still, further improvements in openness are also needed. In this regard, I think that the controversy between confidentiality and openness has probably been overstated. The staff's box was highly useful, as it elucidates an issue that might have gained validity without a genuine analysis. I would add to the arguments included in the box that financial markets nowadays already have a wealth of information. Though it is probably still true that the Fund has access to significant insider information, the gap between what we know and what is publicly available know is diminishing.

* I agree that there is a clear need to explain better how the Fund works and why it asks for certain conditions in program countries. Although I appreciate the need to focus efforts on Asia, we should be clear that the importance of the IMF has long been profound in some other regions. With regard to my own constituency, I can say that the IMF continuously makes the headlines in many countries. Still, I often find that misperceptions about the Fund are equally prevalent. For instance, there seems to be a widespread notion that the Fund is primarily in the business of cutting fiscal deficits. The fact that Fund programs are aimed at monetary stability and balance-of-payments viability, or that these programs also emphasize structural reforms, is often insufficiently understood. More in general, many policy measures are still seen as necessary 'because the IMF demanded it'. This comes back to the need to look at the external communications of the national authorities.

* In this regard, I am in favor of publishing Letters of Intent and Policy Framework Papers. In practice, I can say that this already happens in many of my constituency countries (officially or informally). It is probably a good idea to make this a consistent practice. I would, however, add that experiences in Asia has taught us that these are not the easiest documents to read and therefore can be misinterpreted. Some type of accompanying explanation, or a 'non-committal' translation from Fundese into plain language would be highly useful. In addition, we need to convince our authorities that it is oftentimes more effective to present these as policy measures which they deem necessary and beneficial, rather than as 'the demands from the Fund'.

* From the side of the Fund, I support the idea to involve resident representatives and mission chiefs more consistently in interacting with the media. These staff members have an important role to play in explaining the workings of the Fund and the rationale of certain conditions. Particularly for resident representatives, this should be an accountable part of the job. Some very basic fact sheets, that can be easily translated, should be a standard item in their toolbox. However, let me reiterate that comments on ongoing program negotiations should be avoided, as is clearly spelled out in the guidelines for press relations by resident representatives (Annex II). Incidentally, I welcome the fact that these guidelines have now been published in an internal document; this adds to the transparency within the institution.

* I have some doubts on the notion that we need to better explain the decision-making process in the Fund. In all honesty, I wonder whether such an explanation will be fully understood and retained by a wide audience. It is probably better to simply refrain from making announcements which prejudge the final decision.

* In this regard, I fully support the suggestion to expand the role of Executive Directors as spokespersons of the Fund. I may mention that my contacts with the press in my own country, as well as in some of the other countries of my constituency, have increased substantially in the past year. I suspect the same is true for quite a few of my colleagues. I also support the release of the formal Board agenda, as suggested by staff. If we deem some discussions as being too sensitive,

we can always schedule them as informal meetings. I look forward to working with the External Relations Department (EXR) on "a broader program".

* Our website certainly provides a very versatile means to communicate with the outside. I would like to offer some small suggestions for further improvements. One, it would make our website more attractive if we started to include hyperlinks to other relevant sites, such as home pages of central banks and ministries of finance, local (financial) newspapers, etc. Two, I understand that many 'visitors' to our website have asked for more raw data. Perhaps it would be useful if we could make a link to the IFS database. We might lose some revenues from selling the hard copies, but this should be of secondary importance to a non-profit institution. Third, I would suggest to add brief summary pages on every member country to our website. These could include some basic information, such as its quota, its exchange arrangement, whether or not it has a Fund program, how much has been drawn and how much is still available, etc.

* As part of our external communications efforts, I would say that the March seminars in recent years have been quite successful. Perhaps this should become a tradition.

Follow-up

I agree with the staff's assessment that the Fund's external communications "is a process that is [...] largely reactive" and therefore "entails catch up" (p.12). I also concur with staff that outside interest in the Fund has taken an unprecedented flight over the past 12 months. If one accepts both notions, one has to conclude that we now have quite a bit of catching up to do.

I therefore look forward to learning the findings of the outside consultants, and to follow-up discussions in the Board. I hope that this follow-up meeting will not only include a reassessment of the conclusions we will reach this week, but will also allow us to add more issues to our external communications agenda. As I mentioned above, I do think that there are still some fundamental considerations which we need to revisit.

As a final thought, I wish to caution against any possible illusions that with a massive public relations effort, including for instance advertising, the Fund could drastically improve its image. Given the difficult task entrusted to us, the Fund will always remain controversial to some extent, particularly in times of crisis and with certain groups (some of these seem to find their raison d'être in criticizing international institutions). This is a constraint we have to live with, although this does not mean that we should not do our utmost to explain, promote and, where necessary defend our policies and practices. But like strong central banks who step in and take away the punchbowl just as the party gets swinging, we must accept that the Fund will never win popularity contests. In other words, we should not look for affection or popularity, but aim for respect and credibility. A good external communications policy can be a useful instrument in achieving this aim.

Mr. Yoshimura submitted the following statement:

Since the Asian crisis first erupted, the Fund's public exposure has increased significantly. This is clearly shown in Tables 1 and 2 of the staff paper, which depict a considerable increase in media coverage of the Fund. Faced with this unprecedented media exposure, the Fund needs to examine whether it has an appropriate external communications policy to cope with the situation. Thus, I very much welcome today's discussion, and I commend the staff for preparing a readable paper.

The paper analyzes the current external communications of the Fund from the standpoint of how well the Fund is understood by the public and what kind of assessment the public has of the Fund's activities. This analysis is well done and includes an interesting survey that gives us a better sense of how the public perceives the Fund. I do not think, however, that the paper has analyzed with sufficient depth ways in which the Fund could learn from public criticism of its role and activities, how the Fund's communications with the public could affect the behavior of the financial markets, and what kind of implications the Fund's announcements about countries' policies will have for their policy making.

I got this impression mainly from the section on the purposes of external communications. While I have no disagreement with the staff's views concerning the three purposes listed in the paper, I believe there are other purposes that should be recognized. For instance, listening with an open mind to outside views and learning from criticism. It seems to me that the Fund's attitude toward the criticism that has been directed toward it since it started working on the crisis countries last year has been along the lines of, "We are giving correct policy recommendations, and if given the opportunity to explain our stance, it should be readily understood." In its handling of the Asian crisis, in particular, the Fund has been criticized for prescribing the same old remedies for all, regardless of differing situations. In fact, however, the Fund has adjusted parts of its traditional policy recommendations. For example, it has been allowing larger fiscal deficits for Asian program countries in order to support economic activities and social safety nets against a background of rapidly weakening economies. I think that the Fund should explain more clearly to the public how it has shown flexibility in making such adjustments. The exchange of views with the public—instead of just one-way communication—is also a very important element of external communication. It will be difficult for the Fund to be understood well by the public if it remains convinced that if it has a chance to explain the public will be convinced in the end. The mutual exchange of views will help create a solid basis for a better understanding of the Fund.

Another purpose of external communications should be to reduce information asymmetry and promote the functioning of market mechanism with less distortion. The Fund is an important player at the heart of the international monetary system with its policy recommendation function as well as its resource-providing function. Greater dissemination of information by the Fund would reduce information asymmetry and make the functioning of the world economy less distorted and more efficient.

There is no denying that publication of the Fund's assessment of countries' economic situations and policies would have a considerable impact on their policy formulation. It is therefore regrettable that the third purpose of external communications described in the paper—helping to influence economic policy in individual countries—is not part of today's discussion. This purpose relates to Fund surveillance and is a very important element of the Fund's external communications. This view was expressed by several Directors at the last Work Program meeting. I think we could have had a more meaningful discussion if this element had been included in today's discussion.

Before turning to ways to improve the Fund's external communications, I would like to make some further points about this chair's general stance on the Fund's external communications. As the Governor for Japan stated at last Spring's Interim Committee meeting, international financial institutions, including the Fund, should make more effort to explain their views and disseminate information to the public. It is critical that the Fund take steps to disclose more information about its own policies, structure, activities, and decision making, thus enhancing its transparency. The disclosure of country-related information is a slightly different matter. The Fund's consultations with member countries inevitably involve a great deal of confidential information and the Fund acts as a confidential advisor. If this confidentiality cannot be ensured, there is a risk that the frank exchange of views between authorities and the Fund staff will be discouraged. Moreover, the publication of the Fund's views on country matters could affect the behavior of the financial markets. Given today's highly globalized international financial markets, where vast amounts of money can be transacted in just moments on a piece of information, we cannot rule out the possibility that a pronouncement by the Fund on country-related matters could exacerbate financial market turbulence. From this standpoint, while I welcome the recent increase in media contacts by Fund management and staff, and the improved flow of information, the Fund should be very careful to avoid any overreaction by the market on those occasions. In other words, a very delicate balance has to be struck among openness and confidentiality and possible impact on financial markets. I therefore reiterate the need for careful deliberation before the Fund expresses its views on matters affecting individual countries.

Concerning the specific plans to enhance the Fund's external communications, I broadly agree with the suggestions made in the paper. In particular, releasing more information on policy matters through the publication of summings-up and summaries of staff papers, or staff papers themselves when appropriate, would be a desirable step. I can also support the release of the policy papers for the Interim Committee, and, in view of the recent keen interest shown by the public about the Fund's financial structure and its financial resources, the publishing of information on the Fund's finances and financial operations. I also support the idea of having EXR examine possible formats for Executive Directors to have contacts with the press in an organized way to explain the activities of the Board and to express their countries' stance on various matters. Advance publication of the Board's agenda also would provide greater clarity concerning the Board's activities to the outside world.

Regarding possible areas for further improvement, while I appreciate the fact that the Fund's website has been improved so that the public can now access information more easily, it does not provide information on program countries in a very organized way. For instance, it is difficult to find the current status of a program country in terms of program implementation, review history, purchase schedules, and so forth. I would like to ask EXR to examine the pros and cons of providing such information on the website, including the budgetary implications. As for Fund-sponsored seminars and conferences—both of which are a good avenue for external communications—I think it would be good to have more panelists from the media. This would help improve our communications with the media.

On the other hand, as already mentioned, the release of country-related information must be handled with care. In this regard, I think it is necessary that Fund staff as well as authorities exercise due diligence with regard to both what they say and how they say it during press contacts following the conclusion of staff missions. Some countries have voluntarily released missions' concluding statements. However, since this release of information is purely voluntary and does not receive the Board's endorsement, I have to express my reservations about the appropriateness of posting concluding statements on the Fund's website, even if they have been voluntarily released by the countries concerned.

I would like to ask the staff a question. I understand that, in our effort to learn from the Asian crisis, there have been calls for the Fund to have a more frequent and systematic exchange of views with market participants. I wonder whether there are plans to discuss this matter. In our previous discussions, the opinion was expressed that, if the Fund becomes more active in its communications with market participants, it should be mindful of the confidentiality of the information and be very careful not to do anything that could benefit a particular market group. I think these are valid caveats, and I would ask the staff to take them into account in developing proposals on this issue.

Finally, I would like to reiterate my authorities' view that the Fund should make the utmost effort to explain its views and policies to the public and to enhance the transparency of its activities. Such an effort has to be continuous, and I support a review of the progress made in external communications early next year.

Mr. Hansen and Mr. Palmason submitted the following statement:

The paper gives a fair description of the present approach to external communications and basically proposes more of the same; the underlying theme is that the Fund needs to increase the volume of its message in order to reach a more diverse audience. This strategy seems reasonable, but we may risk overexpansion. In the meantime, it may not be that effective at the margin, and it could become a financial burden.

Increased quantity is not necessarily going to win the "communications war," even if it may help influence some battles. More quantity of information is unlikely to silence all critics in politics and academia. Moreover, assuming that the Fund is "wrong" on occasion, a forceful approach to communicating Fund views may be counterproductive. The Asian crisis experience indicates that, with regard to explaining the Fund's position, little has changed since Camille Gutt was in office, "one never speaks enough, one never writes enough, one never explains enough...And this is for a very good reason: the Fund is very difficult to explain."

Nonetheless, the Fund needs to adapt to new ways. We think it is particularly important to respond early to critics, thus the new critics response unit in the External Relations Department is a good idea.

A key question that goes beyond any communications strategy is that of accountability. Too often, politicians who have lent their support to Fund policies try to distance themselves from the Fund in other fora. More support from the members would reduce the need for expanding communication efforts. Perhaps it is not the Fund but the membership that is nontransparent. Management's communication efforts are constrained by how the membership responds to more openness and, without support from the membership, the Fund is a hard good to sell. If, on the other hand, the membership was more eager to stand behind the institution, the debate might shift away from the Fund per se and towards policy.

In order to facilitate this process, the staff should make extra efforts to reach out to parliamentarians and key players of civil society at the time program work and Article IV Consultations are concluded.

Comments on the issues for discussion:

We agree that there exists a need to reinforce the Fund's external communications. In general, the Fund should, as far as possible, practice what it preaches to countries; that is, transparency, openness and prudent dissemination of information.

Fund documents often paint a very "rosy" picture of the institution. Even this report appears slightly flavored: "The Fund's efforts in recent years to increase openness and transparency are recognized and applauded" (page 13). Among external publications, such examples can be found, for example, in the IMF Survey. There is room for more humility if not self criticism.

We are willing to consider any approach to expanding and improving the dissemination of information from the Fund, as long as it doesn't jeopardize candor and the privileged access to information.

There is a tradeoff between openness and privileged access to information. The Fund's strongest asset is its privileged access to information. There are a lot of good economists in the world, but there is only one IMF.

On the next steps, we are generally positive towards the concrete steps staff is proposing with regard to improving external communications. However, it must be underlined that existing budgetary constraints have to be respected.

We particularly support the proposal of releasing, at the discretion of the Executive Board, selected Summings Up of the Chairman. The countries concerned should have the opportunity to delete potentially market sensitive information.

It is important to make the distinction that the Fund's findings and discussions would be made public, but the public would not be directly involved in the decision making process in the Fund. Referring to parallels, the Federal Reserve Board does not ask the public for input into their interest rate decision making; however, its findings and discussions are published after Board meetings. Generally speaking, this approach is accepted as sufficiently transparent.

We also strongly support the proposal that countries should release Letters of Intent and Policy Framework Papers to the public, as well as the suggestion for a substantial reduction in the current 30-year period governing access to information from the Fund's archives.

We would like to further explore the idea of releasing policy papers for the Interim Committee a few days ahead of the Committee's meeting, although we have some doubts as to the practicality of the proposal.

We would warn that discussions of individual issues often take place in bits and pieces on the eve of Interim Committee meetings. The release of Summings Up of such discussions might do more to confuse than to clarify what the Fund is up to. On balance, we feel transparency with regard to Interim Committee meetings should be focused on releasing information as the meetings take place, followed by timely release of relevant publications.

On more systematically inviting member authorities to join the mission chief in meeting the press, there should be no presumption that member authorities have to participate in such meetings.

On the question of expanding the communication role of Executive Directors, we believe it may be a positive development in some respects. However, there is the risk that, on occasion, Executive Directors may be put in the position of having to defend their authorities, which may not necessarily be in the interest of the Fund. A self-imposed code of conduct would be appropriate.

A review in one year would be appropriate. Any steps, in addition to the ones outlined in the staff paper, to strengthen the Fund's external communications, should await the review.

Mr. Sivaraman made the following statement:

At the outset, I would like to express my appreciation of the informative paper prepared by the External Relations Department on its activities and its efforts to meet with the information requirements of the interested groups on the Fund.

To the generic question on what are the purposes of the Fund's external communications, I would look at it slightly differently from what has been stated in the staff paper. The main purpose would be to provide information to interested groups and individuals on the organization of the Fund, its activities, decision making process, decisions, policies and practices in regard to program countries; to give feedback to staff, management and the Board on what the public feels about the Fund in all its aspects and above all, in systematically propagating economic policies which have wide acceptance in member countries so as to influence their decision making in the right direction which would assist in providing stability to the international monetary system.

I doubt whether one can agree with the statement that one of the purposes of external communication is to influence economic policies in individual member countries through the exposition of Fund views. Fund views on many aspects of economic policy may not be universally acceptable. This is borne out by the fact that the Fund itself has changed its approach in tackling the South East Asian crisis from advocating overly tight fiscal policies to one of being slightly relaxed. Therefore, whatever Fund policies the External Relations Department have to propagate, they should have a certain universal acceptance.

One of the important areas where information is lacking amongst a number of interested groups and individuals is how decisions are made in the Fund. This is an area in which External Relations Department will have to focus its attention on, even though it could become controversial.

The presumption behind what has been said in the staff paper in regard to "promoting the understanding and pursuit of sound policies and best practices" is that all the prescriptions of the Fund fall in this category. They may not. The Fund itself, over time, may have to change its approach in tackling crisis situations and also, there is no single policy which can be uniformly applied to all countries. What is required is to make known Fund policies and practices in an effective manner amongst opinion making groups and individuals so as to get their reaction and to give feedback to the staff, management and the Board with a view to continually improving upon those policies and practices.

I am quite satisfied with the targeted audience and instruments being used to provide information.

I have no particular objection to authorized staff members of the Fund speaking to the media on Fund's work and its policies. However, I would suggest the exercise of extreme caution by these officials while commenting on individual members' economic policies in public which should be left to the senior management at the level of Directors / Dy. Managing Director / Managing Director.

Access to IMF external website could be widespread and enhanced if the External Relations Department could publicize the address of Fund website in all important newspapers of member countries.

The IMF, of late, has come under greater public scrutiny on account of its intense involvement in resolving the South East Asian crisis. Nevertheless, there are people who consider the IMF as a part of the World Bank. This is the "order of ignorance" about IMF even amongst some of the intelligentsia.

In recent times, I would consider the publication of the PINs as an important development in external communications of the Fund as it contains a comprehensive analysis of the status and prospects of member countries' economies that the Fund makes available to the public. In this context, I would consider it necessary for the Board to revisit the issue of allowing the member countries the freedom to publish staff reports on Article IV consultations, along with the Chairman's summing up, apart from the PINs that are being issued. I know that there are strong opinions against this, but there is no reason why this issue cannot be debated further.

As regards 'Next Steps', I have the following comments to offer:

(a) It is not a good idea for the mission chief to invite a member country, which is hosting the mission, to join them in a Press briefing at the end of staff missions. On the contrary, it should be the other way round. The authorities of a member country should be persuaded to organize an official press conference on the conclusion of Article IV consultations to which the mission chief should be invited to answer any questions put to the mission.

(b) While it is true that some information provided by the authorities during Article IV Consultations could be market sensitive and confidential, it is certainly possible to sift these and release the rest which would be of interest to the public without compromising on confidentiality. On market sensitive issues, the mechanism of side letters between the Fund and the authorities could be used.

(c) I have no objection in releasing Chairman's summing up of Board discussions on important policy matters. I would, however, caution against releasing policy papers for the Interim Committee a few days ahead of the Committee's meeting as on most occasions, many of these papers would not have even reached the members of the Interim Committee. They are unlikely to be happy to see them published in the Press before receiving an official version of them.

(d) Regarding information on Article IV consultations, I favor the idea of allowing freedom to members to publish them should they wish to do so. Board could certainly discuss this in detail. As none of the activities of the Fund relate to a member's national security issues, I see no reason for having a thirty year period of embargo for access to information from the Fund's archives. This could easily be reduced to 5 years or even less.

(e) On expanding outreach, in addition to the suggestions, I wonder whether it should not be possible for the Representative Offices in member countries to publish important activities of the Fund in the local language newspapers which have wider circulation in countries in South East Asia and South Asia. It would also be useful for the Managing Director and the Dy. Managing Directors to meet with legislators and leaders of political parties during their country visits to know their views on Fund's programs and policies.

(f) I agree with the suggestion contained in the staff paper on improving transparency.

(g) I wonder what purpose would be served in releasing a weekly advance agenda of the Board and a quarterly advance timetable of Article IV consultations on the Fund's website. While in the case of Article IV consultations, there would be an expectation that subsequently PINs would be released, no follow-up action would be available on Board discussions on other issues. We could consider a monthly Press briefing by the Director, External Relations Department on the work done by the Board during the month, giving a brief overview of the decisions taken. Press briefings by Executive Directors could be only in respect of any program or Article IV consultations of the countries they represent.

(h) Any organization of the stature and size of the IMF is bound to face criticism, particularly when its programs and policies entail enforcement of discipline, with certain painful consequences in the initial stages of the implementation of a program in a country. While it may be necessary to counter ill-informed, mis-informed or un-informed criticism, there is no need to react to everything that is said against the Fund. There is an old saying, "People will blame you if you say too much; they will blame you if you say too little; they will blame you if you say just enough. No one in this world escapes blame." [From The Dhammapada of Lord Buddha].

(i) While the External Relations Department has no doubt stepped up efforts to promote a better understanding of the purpose, work and policies of the Fund, this should be reinforced by providing feedback to the Board; communications can be improved by adequate publicity in local languages wherever possible, particularly in member countries having programs with the Fund.

(j) While the present staff paper has given a good overview of the activities and efforts of the External Relations Department, this is an area which could certainly be subject to external evaluation in the near future.

Mr. O'Donnell made the following statement:

The External Relations Department has produced an interesting and revealing paper which goes a long way to explain the key issues and some of the problems that the Fund will have in trying to resolve them. As EXR recognizes, the delivery of effective external relations is not the responsibility of one department but of the Fund as a whole. All our frontline staff must be capable and ready to handle the media.

The paper recognizes that there is no turning back. The IMF is now in the public glare. It has responded by becoming a little more transparent, both in terms of decisions and processes. The emphasis now should be on introducing more openness and clarity and on being proactive instead of reactive.

The Messenger

The most serious problem with the Fund is confusion about messengers. On page 4 the Managing Director is described as the principal spokesman of the Fund. Certainly the Managing Director needs to be seen as the leader and the definitive voice of the Fund. But he cannot be the principal spokesman because he will never have enough time to devote to media activities. The Fund needs a principal spokesperson who is an expert both on handling the media on Fund issues and who can concentrate 100 percent of his/her time on that subject--and who is identified in that role. The person must demand the respect of journalists, Fund staff and the Board. No easy task. In addition, the individual needs to establish regular (i.e. daily) contact with the media. Such a person would inevitably have a high media profile and would appear frequently on television and radio to put the Fund's case. This would only work if the Management and Board were fully supportive of the spokesperson. One of the principal jobs of the spokesperson should be to ensure that the Fund presents a coherent message on all the key issues of the day. This means that he/she will need a small, tightly controlled group of individuals who can speak on any subject. By necessity this will involve the Managing Director and Deputy Managing Directors and it may well involve Mission Chiefs in key situations.

The Role of the Board

In Box 1 on page 5 of the paper and elsewhere, there is a reference to the desirability of members of the Executive Board making contact with the public. Certainly there will be occasions when it will be useful to have Executive Directors speaking publicly on specific topics but I expect these would be very rare and confined to comments on the countries they represent and general remarks supportive of the Fund. A proliferation of 'Fund views' will lead to confusion.

A major function that should be played by Executive Directors is to mobilize "friends of the Fund" in their own constituencies to write letters, appear on TV etc in support of the Fund's policies and actions.

Media Explosion

The tables on page 8 show the increasing number of articles mentioning the IMF in the media. Of course the growth in the number of media outlets and, in particular, the growth of wire services means that these figures will have increased virtually for all institutions. In other words, ideally they should be scaled by some overall factor. Nevertheless, it is quite clear that there has been a large increase in interest in the IMF because of the Asian crisis. It is not the case however that this increase necessarily requires a greater input of resources from External Affairs because of the huge economies of scale in talking to larger numbers of groups at the same time.

But there is an important point here, namely the growth of the wire services. As their news stories travel the world almost instantaneously, there is a demand for a 24 hour rapid response unit which can have decision-making power and can respond rapidly to errors and criticisms contained in global media.

The Message

Clearly the Fund, if it is to win the battle of ideas in a global age, needs to clarify its message and explain it in greater detail more frequently. This means more openness and transparency. The UK has argued quite strongly for the release of PINs, LOIs, end-of-mission statements etc. These must themselves be open and transparent. But they must also be phrased with a careful eye on how the media will use them. Ph.D. economists do not always appreciate how journalists can pounce on unfortunate wording. The behavior of journalists varies widely across countries. What would be a perfectly reasonable press notice in a country with a rather compliant media could well be turn out to be a PR disaster in a country with rather more ill-intentioned journalists. This suggests that sensitive missions should include someone who is attuned to media handling in the country in question. The alternative is to make use of Res Reps rather than mission chiefs when dealing with local media. But I doubt that would work given the fact that Res Reps do not seem to be heavily involved in detailed negotiations.

We still have not found the right balance between informing the public about negotiations under way and not undermining Board responsibility for the final programme. I would welcome separate discussion on this--it is particularly relevant for staff-monitored programmes.

Mistakes

Greater exposure and greater use of "non-professionals" to educate the media means that there are bound to be mistakes. If none is made, it will be because we are still being over-cautious. So we must be prepared to mop up after the occasional disaster and support staff when things go wrong.

Some Minor Points

On page 12, the Fund's approach to external communications is described as evolving and "being largely reactive". This seems to me a fairly fundamental point. No successful communication strategy can be largely reactive. The Fund is in fact setting the agenda much of the time and therefore should be taking an active position on most issues.

On page 13, there is a reference to a respondent to the survey saying that the Fund can no longer rely on its "majesterial authority to carry the argument". This is certainly the case. Mere assertion now achieves little. As others said: "the Fund should be more assertive in defending its corner and speak more directly to issues raised by influential critics"; and "the Fund should simplify the language of its statements, documents and message." We need to start using the popular press rather than the unpopular press. A radical thought but an important one.

On page 12 there is a reference to the fact that developments in global markets make it increasingly inappropriate for the Fund to be used as a scape-goat or political lightning rod for weak governments crying about the loss of political popularity. I strongly agree with this point, but I don't think the message has yet sunk in. It is all to easy an excuse for the Fund to sit back and say everybody hates us because we have to do the difficult things that governments don't. In these days when we stress the need for governments to own programmes, it is positively harmful for the Fund to allow itself to play the role of scapegoat.

On page 17, I warmly welcome the ideas on openness put forward. It is my impression that most of the initiative and drive for opening up the Fund has come from the Board and external forces. It is extremely reassuring to find staff trying to push greater openness. This is not to say that the set of ideas here are particularly radical nor that they are ones that will really increase the extent to which the Fund gets across its message. However, they will be signs that the Fund is trying to increase its overall openness and therefore are to be welcomed. But we should have no illusions: however open the Fund becomes, the media will always want more.

The paper also suggests considering a pilot programme whereby TV corporations will produce documentaries on the work of Fund missions. These fly-on-the-wall documentaries can be very effective but they are also extremely high risk. Producers will rarely make "unbalanced" programmes so in most countries these documentaries will include the views of Fund critics. As long as this is understood, such films can be extremely worthwhile.

I noted the fact that the Bank had withdrawn from the Finance and Development publication. The External Relations Department give this a positive spin--as they should--but I wonder whether the breakdown of this, to my knowledge the only single joint publication, is a good sign given the problems of Bank/Fund collaboration. Secondly, I wonder if we have a policy sorted out about charging for hard copies? Given the accessibility, I would have thought that we should be increasing charges for hard copy papers in countries with easy access to our website (which, incidentally, gets high praise). Thirdly, the paper states that most Mission Chiefs and Res Reps take the media training course offered by External Relations Department. I am worried about the ones that don't and I am concerned at how good the course is. Certainly, there was no ability within the UK government in any department to put on a course that would be good enough. We used the private sector for a large part of it with the equivalent of EXR explaining the Fund-specific issues.

The Fund, and EXR in particular, face very difficult challenges in these areas. In our view, these require a more ambitious and proactive approach to external communications.

Mr. Wijnholds considered Mr. O'Donnell's suggestion to have a principal spokesperson for the Fund interesting. He felt that the Fund could also benefit from getting an outside opinion from consultants on that issue. Regarding his own suggestion to expand the role of Directors as spokespersons of the Fund, he meant to say that Directors should try to respond to requests for information by the media. Moreover, EXR should include Directors in their press briefings when it concerned a country in their constituency.

The Chairman said that Directors were representatives of the Fund, and, as such, were already spokespersons of the Fund. He expressed his appreciation to those Directors who had shown a great deal of responsibility in their contacts with the media, particularly in their own constituencies. Perhaps management could provide Directors with material for their statements to the press, and accompany Directors if they wished.

The Director of the External Relations Department, in response to questions and comments, made the following remarks:

> Mr. Yoshimura mentions in his statement the possibility of a Board discussion on how exchanges of views between Fund staff and market participants should be conducted in the future. My understanding is that the thinking on this issue is still at a preliminary stage, and when it develops, the Board will be informed.
>
> Mr. Sivaraman expresses his disagreement with the staff's description of one of the purposes of external communications: "helping to influence economic policy in individual countries." We should have expressed this point more clearly. We did not imply that that external relations activity should sell Fund policies as the only correct ones, but that when the Fund issues statements recommending a certain policy course, for example, in the PINs, they do inevitably influence perceptions, both in markets and among public opinion. By doing so, they affect the attitudes and responses of policy makers, albeit indirectly. This point is linked closely with Mr. Wijnholds' concern about the Fund's credibility, which is based not only on official responses and reactions, but also on the views of market participants and civil society.
>
> Mr. Wijnholds also suggests that we should have undertaken an assessment of the criteria that the Fund's external communications strategy needs to meet in order to attain the objectives being sought and the extent to which they have been met. This certainly would have been desirable, although that would have required a more ambitious undertaking than we set out for in this paper. We hope to come back to the Board in early 1999 with another paper, which would include input from outside consultants, and which could look into the assessment of criteria.
>
> Concerning Mr. Wijnholds' suggestion to substitute some of the press releases for PINs because PINs are more balanced, the Fund is concerned about maintaining balance in all its public statements. The drafting of press releases is intended to put forth clear and simple text, and to produce effective communication, whereas the drafting of PINs is naturally more balanced as it includes the views of the entire Board. In response to Directors' comments in this regard, we will ensure that what we issue to the public is even clearer than what it is today. Mr. Wijnholds' comment that a way be found to make the content of letters of intent and policy framework papers easier to absorb by the public certainly goes in that direction.
>
> With regard to the useful suggestions to improve the website, we are working on some of these. We clearly would like to develop the website as quickly as possible, resources permitting.

Mr. Hansen commented that it is important to make a distinction between the Fund's findings and discussions that would be made public and the Fund's decision-making process in which the public would not be directly involved. That has been—and continues to be—the Funds' approach. We recognize that the healthy exchange of ideas and information between, for instance, the Fund staff or Directors and NGOs, such as the recent meeting between Directors and the Center of Concern on transparency issues, is always welcome, and is constructive in providing ideas and inputs which affect the Fund's thinking on issues.

Mr. Sivaraman commented that country authorities should organize a press conference at the conclusion of an Article IV mission to which the mission chief should be invited and not the other way around. This is exactly what we had intended to suggest. The only point to bear in mind is that there may be occasions when a mission chief may speak to the press himself or herself and the officials might decide not to participate. Each individual case varies.

Mr. Sivaraman is also rightly concerned about the suggestion that Interim Committee members should not read about policy papers in the press. Of course, we agree. This is why we have suggested that the papers should be made available under embargo, which means that if the embargo rules are respected, they would not be published until after the embargo expires.

Mr. O'Donnell wonders whether we have a policy on charging more for Fund papers, especially in countries with access to hard copies. We can certainly look into this further. Up to now, the Fund has adhered rather religiously to a one-price policy for its publications. A multiple pricing policy is costly to administer; however, we can achieve the same objectives by making available copies free of charge where this is necessary and where the price is regarded as too high.

About 60 percent of our mission chiefs and 85 percent of our resident representatives have taken the media training course. Two versions of this course are offered: one is a two-day course and the other is a half-day course. The attempt is to make Fund economists more comfortable and comprehensible before television or print journalists. The intent is not to make them media stars, although some of them are beginning to think that they are.

Mr. Harinowo made the following statement:

We welcome today's discussion on the Fund's approach to external communications. Much has indeed been done by the Fund to improve its image, but clearly there is significant public demand to do more. From the quotation on the opening page of the staff paper, it would appear that today's discussion is long overdue. However, this is certainly a case of better late then never. In light of ongoing Fund involvement in Asia as well as other parts of the world, we can certainly agree that there exists a strong need for the Fund to build on as well as improve upon its efforts to promote a better public understanding of its purposes, work and policies. Annex IV of the staff paper indicates that while recent initiatives by the Fund to provide more information and increase the transparency of its operations have been broadly welcomed by the various segments of the public, it is also clear that there is an increased desire to know more about the Fund and to understand it better.

On the various aspects of the proposed strategy outlined in the staff paper, we would like to make the following comments:

First, with regards to providing more information, the more important aspect is the provision of greater clarification of Fund policies and processes for better public understanding. We must bear in mind that no matter how much information is provided by the Fund, there will always be a demand for more. Hence, it would be worthwhile to also focus on the quality and suitability to each segment of the audience and not just the quantity of the information that is provided. There must also be an appropriate balance between confidentiality and greater transparency. Faced with inevitable budgetary and resource constraints, consideration must also be given as to how information can be more efficiently and effectively provided to the public. The various proposals for providing more information outlined on pages 15 to 17 of the staff paper do merit consideration. With further refinements and appropriate safeguards, we can support a careful implementation of these proposals.

Second, on expanding the outreach and improving the transparency of the Fund, we can broadly support the various proposals outlined on pages 17 to 19 of the staff paper. However, the power and imagery of the printed words and photographs must not be underestimated. There has indeed been an enormous amount of literature published on the Fund. However, we have yet to come across, in one single volume, in understandable language, with helpful accompanying photographs, charts or tables, a book that concisely and clearly explains what is the Fund, its objectives, its organizational structure, how it is financed, its financial workings, its views on macroeconomic policies, and how it operates in carrying out its surveillance function and in providing financial and technical assistance to countries. The Fund's Annual Report, while informative, has to remain technical and is not suited nor is it intended for this purpose. Under the present circumstances, it may be worthwhile for the Board and management to consider commissioning a professional public relations project in this respect. Such a publication can then be translated into various languages and could be made more easily available to a wider public audience.

Third, on responding to critics and criticism, we would urge that an open-minded approach be adopted. A more rapid and systematic response by staff with the aim of correcting misconceptions, laying out the Fund's case while welcoming a reasoned debate are indeed steps in the right direction. However, since nothing in this world is perfect, the Fund must also accept that it may not always be right and must be prepared to make such an admission actively in the most diplomatic way. One related aspect which we find has not been adequately discussed in this paper is how the Fund handles the constructive feedback that it receives from the public. Is there an established channel to bring such views to the attention of the management or the Executive Board?

Fourth, we would certainly welcome a review in early 1999 of the initial experience with the implementation of the proposed initiatives that has been outlined.

Finally, before concluding, I have some comments with regards to Box 1 on page 5 of the staff report that deals with the capacity in which IMF officials speak. We can agree that it is not practical or desirable of the Management or the staff to cut back on their contacts with the press or the public. However we insist that when IMF officials make statements to the media, particularly in regards to countries under Fund programs, they must allow themselves to be identified and they must state in what authority or capacity they are making such statements. We do not want a repeat of the incident where the irresponsible remarks of an anonymous Fund official had sparked off increased volatility in the Asian financial markets thereby contributing to a further worsening of the entire situation in the region.

The Acting Chairman acknowledged Mr. Harinowo's last point on the irresponsible remarks by a Fund official regarding the Asian crisis, but pointed out that it had not yet been determined whether that person was from the Fund. There had been occasions where people had pretended to speak on behalf of the Fund.

Mr. Daïri made the following statement:

The Fund's external communications function is doing a good job in adapting its role to that of the institution, including the prominent role being played by the Fund in dealing with the Asian crisis. However, as noted by the staff, the Fund's policy in this area is mostly reactive, and we see a clear need for a more proactive approach. A proactive approach will improve the Fund's openness and governance, as well as build a consensus and enhance program ownership in countries. In light of the fast-moving information environment, the Fund should be at the forefront and should not play a catch-up role, as it is doing now. What is surprising is that it took so long for the Board to formally discuss this important function of the Fund, as indicated by Mr. Harinowo. We should keep in mind, however, that the effectiveness of the Fund's policy on external communications depends—to a large extent—on the willingness of the membership to contribute to such efforts, as indicated by Messrs. Hansen and Palmason. In addition, external communications represents one of the smallest functions in the Fund, absorbing only 3 percent of total staff resources. Moreover, of the estimated cost of the external relations work program of $18.2 million in fiscal year 1999, almost $5 million will be recouped from sales of publications. While we commend management and staff for undertaking the proposed external relations work program with little or no increase in current staff resources, the Board should be prepared to adequately finance this expanded program.

Turning to the next steps proposed by the staff to strengthen external communications, we can generally support them, but would like to make several comments. One of the main reasons why we have difficulty in moving ahead with a more ambitious communications policy is the perceived link between transparency in Fund activities and transparency in member countries. While both raise legitimate concerns that need to be addressed, Mr. Yoshimura rightly points to the need to delineate between the two, as far as the role of the Fund is concerned.

Indeed, it would be unfair to preclude further transparency in Fund activities because of difficulties in some countries to achieve more transparency. We intend to come back to issues of transparency in country-related matters in the next Board discussion on transparency.

We strongly support greater openness in Fund activities, including policy issues, its views on member countries, its decision-making process, and its financial and administrative arguments.

We support the proposal to provide more information, with the following qualifications. On the release of the chairman's summing up on policy issues—although we have no objection in principle—our preference is for a case-by-case approach. Summings up should be released only when there is a final agreement in the Board on the issue under consideration. As long as the issue is still open to debate or when the views of Directors are preliminary, we should refrain from releasing summings up in order to preserve the consensus-building process in the Board. In all cases, released summings up should be accompanied by executive summaries in accessible language, as suggested by the staff.

On the publication of letters of intent and policy framework papers, we agree that the Fund could encourage their publication in cases when it would help in the consensus building process, but we do not support requiring such publication as a matter of principle. Many countries do not meet the three qualifications laid down in box 4 in the paper for openness and credibility to effectively work together: i.e., when country authorities solicit the broadest possible public consensus on policy reforms; when they are committed to establishing the country's ownership of a program; and when policy advice is being provided by a wide variety of internal and external sources, and is being publicly debated and discussed.

We can support the proposed actions under the heading expanding outreach, in particular, the more active program of regional speeches and public affairs seminars in Africa and Asia. However, we have reservations about the proposed low key medium-term information efforts in the United States. In our view, it is better to concentrate our efforts on the U.S. congress and major media outlets where Fund policies are being debated and where any action on a program could be decisive. We can support efforts to advertise on the IMF website as a cost-effective way, and the Fund could engage in reciprocal advertising agreements with other websites. We can support the proposed actions to improve transparency by responding to critics. However, we would like to emphasize the importance of providing a clear, understandable, and timely message, preferably by people experienced in modern communications. We welcome the establishment of a response unit with outside expertise, but we caution against the adoption of a war room mentality, because building and maintaining a good image for the Fund is a lengthy process. In addition, too much argumentation, in particular in crisis periods, may create uncertainties.

In addition to the proposals made by the staff, we offer a few proposals. First, increasing the frequency of seminars targeted at the media. Second, expanding the content of the website by adding the full text of IMF publications in languages other than English. The added cost for the Fund would be minimal, since these publications are already translated. Third, making full use of the modern technology; for example, the Fund could use a cost-effective way to disseminate its publications and contents of its website by inviting visitors to subscribe to a daily e-mail newsletter. Such a newsletter could include links to all the daily editions of the website and will have to reach those interested in the Fund's activities on a daily basis.

The role of external communications in informing the staff and Board should be better focused. Instead of offering raw information, the Fund's website could be used to offer each user the possibility to select and personalize news, depending on an individual's area of interest. In addition, in order to be useful, the Morning Press publication should be available early in the morning, like the sister publication Development News of the World Bank. A morning press publication is of a limited relevance if it is not available within the first working hour.

Mr. Bernes made the following statement:

My sincere thanks to the staff of EXR for their response to our request for a review of the Fund's external communications efforts. The external environment in which we conduct our affairs has been evolving rapidly in recent years, and the events of the last year have only served to accelerate this pace. Obviously, the Fund needs to improve its communications strategy. The report before us contains a number of constructive and, in some cases, bold suggestions to improve the efficacy of the Fund's dialogue with the outside world. Its recommendations represent an evolution in our attitude which would have been difficult for many to imagine just a few years ago, or perhaps even a few months ago. At the same time, this is simply the start of a process of revamping our external communications approach, and it is a subject that we will need to come back to.

At the outset, I would like to endorse Mr. Yoshimura's insightful comment that external communications entails listening with an open mind to outside views and learning from criticism. Mr. Sivaraman observed that the purposes identified in the document are too limited and ignore the essential requirement to provide vital feedback on external perceptions and reactions. Similarly, I associate myself with the sentiment expressed by Messrs. Hansen and Palmason that there is room for more humility, if not self-criticism, in our external communications strategy. Too often we view our interplay with the public as a one way flow of information as we endeavor to explain our work to the uninitiated. Perhaps our objective should be not simply to convince our audience of the correctness of our own views, but to engage in an open dialogue that might lead to a different understanding of a situation or an issue on those rare occasions when we might possibly not be right. This must be kept in mind as we seek to engage our critics directly and forcefully. Indeed, the substitution of a monologue for what should instead be a dialogue deprives us of not only valuable information, but also the opportunity to build the support and respect essential for our own effectiveness. It is therefore worth noting that the success of any dialogue is inextricably tied to the issue of transparency. Where transparency is lacking, effective communication is compromised. I therefore welcome the prominent role staff have given to enhancing the transparency of the Fund's operations and deliberations.

Up until now it would have been safe to describe the Fund's approach to its own transparency as providing information to the public only if there is a compelling need to do so. This is consistent with a long history of central banks and finance ministries. But just as the latter institutions have been changing, the Fund should make available more information wherever there is no compelling need to maintain confidentiality. Anything short of this will eventually prove to be shortsighted.

Turning to the specifics of the report, I would like to thank Mr. Wijnholds for raising a number of important points in his statement. In particular, he correctly identifies the need for a focused assessment of the extent to which our past efforts at external communications may have undermined our own credibility, particular in the context of the Asian crisis. Much of my concern centers around the ad hoc use of certain language in press statements which endorses the policy responses of various affected countries, without a clear relationship to the quality of a particular policy response. This may have also eroded the value of the Fund's endorsement. Certainly, in the midst of a crisis, the Fund will want to make statements that restore confidence and not exacerbate concern, but the cost of this temporary benefit is that the public will discount the validity of our subsequent supportive statements even when they may be true. As one market respondent noted, the days are long past when markets could be satisfied with general statements of reassurance by Fund management on country situations. As the paper suggests, this issue may be under review by the staff, but I would have hoped for more up-front treatment; discussing this issue further is critical.

In raising the issue, I don't intend to single out press releases by management because I share the view that it is naive to suppose that the press and the public distinguish between views expressed by staff, management, or the Board. In the public's eye, the Fund speaks with one voice and as such our message, regardless of who delivers it, must be delivered in the context of a well conceived and time consistent strategy.

I note the staff's distinction between press releases and Newsbriefs. Press releases are to inform the public in a timely fashion of Executive Board decisions on the use of Fund resources and on other issues of public interest. Newsbriefs are used principally to make the public aware of management and senior staff views on topical matters. As we have noted, the Fund is seen to speak with one voice, and the distinction between these two vehicles is likely appreciated by a few, if any, outside the Fund. Indeed, looking at Newsbriefs issued since March of 1998, a number announce Executive Board approval of program reviews. Others contain headlines and refer to the reactions of management or staff. Something is amiss here. We should consider consolidating vehicles and find a better way to deal with the public's difficulty in differentiating who at the Fund is expressing views. This may best be done not through the designation of a principal spokesperson, as suggested by Mr. O'Donnell, but through a clearly articulated and widely understood external relations policy with which all relevant staff are familiar.

Another issue which requires more thought is lobbying. Traditionally, the Fund has asserted that it does not lobby. That is the job of the authorities in a particular country. Instead, the Fund does outreach. The best illustration of this is the efforts of the staff and management to provide extensive information to members of the U.S. Congress and their staff. I find it difficult to believe that these efforts only involve the neutral transmission of factual information. Indeed, I hope this has not been the case. We must face up to the fact that we are involved, albeit in a limited way, in lobbying. If this is what we are doing, we should make sure we do it right. This requires, among other things, the establishment of contacts and relationships with key decision makers in government and key media people who command positions of influence. Efforts to this end cannot be pursued sporadically only when important legislation is facing difficulties, but it should be systematic and ongoing. Clearly, such activities must be taken with the knowledge of, and in coordination with, the relevant authorities, but the Fund may have a distinct and valuable contribution to make in forging domestic political support. I would welcome the views of the staff and Directors on this point.

The communications strategy needs to be seen as an integral part of the institution's work. Unfortunately, it is often only seen as an afterthought. While I appreciate the recognition of the need for transparency, issuing statements as an afterthought fails to clearly grasp the critical importance of an effective communications strategy in achieving our objectives. Perhaps on critical issues or programs coming before the Board, the papers should include a section on communications strategy. If not, I would hope that management would require this in documents coming to them for approval.

I note the staff's intention to review the coexistence of electronic and print versions of certain publications. I see merit in Mr. O'Donnell's suggestion that we consider increasing charges for hard copies in countries where there is easy access to the Internet. For a few years now, the entire Canadian budget background documentation is put on the Internet and is available free of charge to the public. A small summary document of the budget is also available free of charge. However, The cost of the entire budget in hard copy is fairly hefty, roughly US$100. This approach makes a good deal of sense.

I broadly agree with the staff's suggestions on how to proceed in our efforts to improve the effectiveness in our external communications. I fully support the release of policy papers for the Interim Committee a few days ahead of the committee's meeting. I see no reason to do so under embargo, as suggested. Apart from the fact that such embargoes are often hard to enforce, broad public awareness of the substance of the issues governors are to consider can only focus governors' attention on issues more intensely, and thereby make the committee discussion a little more relevant. I do, nevertheless, accept the concern expressed by Mr. Sivaraman, and efforts would have to be made to ensure that these documents are transmitted to members of the Interim Committee in a reasonable amount of time before they are made available to the public.

On the development of a broader program of "on the record" contacts for Directors, I presume this means that Directors would be better integrated into the institution's overall communications strategy as spokespersons for the Fund, where appropriate. This would not undermine Director's independence of management or their accountability to their authorities, but where objectives coincide, more immediate consideration should be given by external relations to the contribution Directors can play in a particular communications effort.

I am particularly supportive of the suggestion to release, in advance, preliminary Board agendas. This information, or at least some variation of it, is often already in the public realm, and if we are serious about openness, it is only reasonable that the public know what issues are coming to the Board so that they have the opportunity to provide feedback to the authorities in their countries. I also strongly endorse the intention to enlist external consultants to review the coherence of our external communications strategy and the effectiveness with which we implement it.

To effectively carry out our objectives, we need to ensure that, just as in our economic work, the staff working in this area at all levels are the best and brightest in their field. Equally important, however, is that management, staff, and the Board have confidence and trust in the ability of these professionals to articulate the best approach to expressing our efforts and views to the outside world, and to ensure that this is done in an accurate and effective manner.

Mr. Yao, noting Messrs. Bernes' and O'Donnell's remarks on increasing the charges for hard copies of publications that were on the Internet, stressed that many member countries did not have access to the Internet.

Mr. Bernes acknowledged that the Internet was not available in certain countries, and pointed out that the staff would need to differentiate between countries when assessing charges. However, given that most hard copies were made available in countries that have access to the Internet, there was scope for increasing charges for hard copies.

The Acting Chairman asked Mr. Bernes to clarify his position on including a communications strategy section in Article IV consultation reports.

Mr. Bernes responded that it would be useful to have a communications strategy section in certain Article IV reports where there were perceived communications problems. Moreover, in the context of program countries, including a section that would inform the public what the Fund was doing in the area of communications could be critical for the success of a program.

Mr. Yao made the following statement:

I would like to thank External Relations for the informative paper. Clearly, the Fund has greatly increased and adapted its communications efforts to meet the challenges of informing its audience. Over the past few years, there has been a very significant increase in the number of publications, speeches, seminars, conferences to communicate our views and explain the working of the Fund to the public. These efforts have been well targeted and need to be pursued along the line of the constructive suggestions made by the staff and previous speakers.

However, despite those efforts, we should expect some criticism about the Fund's commitment to openness and transparency. In my view, two factors contribute to the misperception. First, the nature of our work: economics is an esoteric field, therefore the information we provide may not be understood by the public, or worse be misunderstood. Along the same line, it is important to recognize the nature of Fund work with the demand of members for confidentiality. In Box 4, the staff underscores the complexity of the issue. Also as explained by Mr. Yoshimura, member countries' willingness to be transparent set a limit on the Fund's ability to be transparent.

Second, the Fund's influence in the economic policy debate has increased significantly. In that regard, various groups or individuals who may want to contribute to shape our policies may become our main critics.

With these factors in mind, we would like to make some broad comments on some of the issues raised for discussion.

First, on the need to reinforce our communication effort. We are doing much right now, and we need to continue along those lines. That is, through press releases, speeches, seminars, and through the Internet. We agree with the staff on the main groups that constitute our audience, and in that context, we need to tailor our information according to the group targeted so that the message can be clearly understood.

We note that there is a greater demand for information about countries. Here, we are of the view that the information we are providing through press releases, PINS, etc. is adequate. Many of these instruments are relatively new and we need to give them time to have their effects.

Second, we broadly agree with the four aspects of external communications that the staff think merit specific attention. However, on the suggestion to engage critics of the Fund's policies more directly and more forcefully, our move should be made on a case by case basis and should be guided by our desire to explain our policies.

Third, on the outline of actions that the staff is planning to undertake, we can broadly agree with them, except on the release of the Board agenda. We are not sure that this will contribute to improving transparency, especially, if, as has happened many times, in the case of program countries, they had to be removed at the last minute from the agenda because not all prior actions had been taken. This could have adverse effects on markets, and for this reason we would prefer that Board agenda not be made public in advance.

Fourth, we agree on the need for more transparency, but we should set limits. After all, we are a financial institution and an important one for that matter. We need to be specially careful not to influence markets in one way or another. Also, we need to continue to respect the views of our members on the release of country information. We would thus be able to improve the understanding of the Fund's work, while also continuing to serve the Fund's mandate, and retain the full confidence of our members.

Mr. Newman made the following statement:

Today's discussion and the upcoming meeting on transparency and surveillance are certainly timely. The Asian crisis has made clearer than ever that the credibility and effectiveness of the IMF depends upon its having in place the policies and mechanisms to support public understanding of this institution and the economic policies of its member governments. Certainly, a balance must be struck between the legitimate need for a degree of confidentiality in the IMF's relations with its members and the need for openness. In the past, however, we have allowed this balance to tilt too far in one direction.

Since the Mexican crisis and especially during the current crisis, we have made a great deal of progress in redressing this imbalance. But it is fair to say that the quote which opens the staff's report is no less true today than it was in 1948. The IMF remains largely opaque to outside observers, inviting misunderstanding and misdirected criticism. As Mr. Wijnholds and Mr. Sivaraman point out, the Fund will always be subject to debate and criticism but a great deal more can and should be done to explain, promote and defend the policies and practices of the institution. At the same time, as Mr. Yoshimura notes, this process should work in two directions, as this institution can benefit greatly from the input of a more informed public.

We need to move away from a reactive, incremental stance to pursue a more comprehensive approach if we wish to alter fundamentally public understanding regarding the IMF. This has two dimensions -- first, the disclosure of information and second, the IMF's public outreach efforts.

Information disclosure

I will focus most of my remarks today on the issue of information and disclosure, although I recognize we will have a further discussion on these issues in two weeks. I do so in part because I think there are some areas where we can possibly go beyond what the staff has done and because I do not consider myself an expert on outreach.

In terms of release of information, it seems to me there are three dimensions -- the workings of the Executive Board, the activities of members and information regarding the institution itself.

Increased Information on Board Activities:

In terms of the Executive Board, the staff's suggestion of release of a weekly advance agenda of the Board schedule and a quarterly advance timetable of Article IV consultations on the IMF's website should be given serious consideration. This will not only increase awareness of the Board's work but will demonstrate our willingness to engage public inquiries regarding topical issues. At a minimum, we should be prepared to indicate on a regular basis the Board's activities over the recent past, possibly through a weekly press release similar to the current daily precis issued internally. We also believe that public summaries of more Board discussions should be considered, including major operational policy and administrative matters. Such documents should include clear background information that provides readers with the necessary context to understand the Board's deliberations. Likewise, reports to the Interim Committee related to Board policy discussions should be released after the Interim Committee meetings have been concluded. Finally, we should continue and expand the current practice of publishing full staff reports for the Board's policy discussions on a case by case basis, including perhaps this one.

Disclosure regarding member countries

I recognize that we will have a more detailed discussion of transparency and surveillance in two weeks. However, it should come as no surprise that we support the staff's suggestion that countries accessing Fund resources be required to release LOIs and PFPs, while recognizing the need for some exemptions for market sensitive information. I would note that such a practice could be undermined if it were to create a tendency to take sensitive information out of LOIs. I would also suggest that we consider going a step further by requiring the release of program PINs.

With regard to Article IV consultations, we should alter the current presumption so that PINs and REDs will be released unless a country requests otherwise. We continue to believe that member countries should be permitted to publish their own Article IV report and staff reports to the Executive Board on their own programs as a mechanism to support greater public understanding and contribute to more informed debate regarding policy decisions.

Disclosure by the IMF regarding its own operations

In terms of the IMF itself, increasing public understanding in member countries of the way the IMF functions is essential to its credibility, to the scope for informed feedback, and, to varying degrees, to support the institution. As importantly, the credibility of the IMF in its advocacy for transparency by member governments will be enhanced by its own openness.

Thus, we should improve the availability and accessibility of information on the Fund's financial workings. This should include the regular release of the Fund's overall liquidity position and -- perhaps on a lagged basis -- the operational budget. At the same time, we need to improve audit procedures for our financial statements and make their presentation more understandable to the general public. We therefore look forward to early Board consideration of the recommendations of the outside expert looking into these issues and our next discussion of the operational budget where we will have an opportunity to discuss the publication of these documents.

On a small point, I would appreciate clarification from the staff regarding the feasibility of publishing the Fund's administrative budget shortly after the financial year begins rather than waiting for the Annual Meeting. We also agree with the staff that the current practice of waiting 30 years to release documents in our archive is too long, given that the market sensitivity of this information tends to dissipate quickly. We would suggest such documents be available to the public after 5-10 years. Finally, establishing permanent procedures for independent external evaluations, based upon the current trial experience, will be an important vehicle for fresh insights in how the IMF carries out its mandates and for greater public understanding of its operations.

Public Outreach

Let me turn briefly to public outreach. As I have noted, I am not an expert in this area and would defer to others -- including the staff, the external consultants being engaged for this purpose, and our resident guru, Mr. O'Donnell.

However, I do share the concerns expressed by Mr. Wijnholds regarding the need to look carefully at the way we frame public statements -- including the need to move beyond standard positives in press releases to a more balanced or at least selective approach. I also would have liked to have seen a fuller discussion of the role of management, vis-a-vis the Board, including for example, what type of public statements are appropriate regarding the staff-monitored programs where I think we need to consider establishing clearer guiding principles. The ideas presented by Mr. O'Donnell -- including the establishment of new positions for an IMF spokesperson and support team are certainly worth considering in this regard.

Staff makes a number of other very sensible suggestions for improved outreach, including broadening its geographic reach and extending beyond traditional definitions of our audience to increase direct contact with civil society and the public at large. I was pleased to see that EXR will be engaging a number of short-term consultants with expertise in public relations, and I hope that these actions will be complemented by steps to enhance such expertise on a permanent basis. With a very generous 80 staff years already devoted to our external relations function, this is one area where the questions of skill mix -- as well as redeployment from lower to higher priority functions -- appears to be particularly relevant.

Conclusion

We view today's discussion as the first step in a process aimed at making the Fund more transparent, open and effective. Our meeting on July 22 will carry the process a step further. Our aim should be to present a comprehensive report to the Interim Committee at the Annual Meeting. At that time, we will also need to consider how we communicate our revised communications strategy to the general public in a manner that leaves no doubt that we have met Mr. Gatt's challenge.

Mr. Esdar made the following statement:

We very much welcome staff's paper and today's discussion of the Fund's external communications strategy, which is indeed quite appropriate and timely. During the past years, the Fund has moved more and more into the public limelight, both because of its crucial role in events which were at the center of global concern but also because all public institutions, nationally and internationally, are increasingly confronted with requests for more transparency, openness, accountability and even participation.

We agree with staff that "the fundamental reason for an external communications function is to contribute to the effectiveness of the institution's core work." Such communications policy should not only be demand driven from the outside, but also has to be actively sought by the Fund to make sure that the Fund's work and views are better known and understood.

Given the experience the Fund gained over the years and the well established communications channels to several target groups outside the Fund, we certainly do not have to start from scratch, but we can focus on ways and means to improve our external communications strategy and its effectiveness. Here, one can distinguish between two main areas: firstly, active daily communications with the media, i.e., the press work in its narrow sense, and, secondly, more general external communications activities or public relations work.

The most important instrument for effective press work is to establish and to maintain close links to the relevant press and media representatives. The objective has to be to provide the necessary information about our day-to-day operations, the general policies and policy objectives. While such media work certainly cannot ensure that the work of the Fund will always be presented or discussed in a positive light, it can at least contribute that press comments and reports about the Fund are based on the correct facts and that the objectives of our intentions are well known.

The second area requires a broadly oriented and diversified communications approach to ensure an efficient exchange of information with various groups in the so-called "Civil Society". Here, the Fund should cooperate not only with other international organizations but also with national authorities in order to achieve a better understanding of its work.

Let me add one general remark. While an active external communications policy is an important instrument for establishing broad ownership of an international institution like the Fund, and while it is crucial that the general public understands the objectives and the workings of this institution, not at least to generate the necessary financial support, we have to be aware that there are also limits as to what an external communications strategy can achieve. The Fund in this regard is in a somewhat precarious position. It usually has to step in when something has gone wrong and the economy is in very bad shape already. Corrective actions in these situations by definition generate hardship at least in the short run. The politicians in such situations like to blame the Fund for this hardship instead of admitting that these adjustment needs are a consequence of their policy mistakes in the past. Quite often it is easier to base opinions on prejudices rather than to bear the costs of gathering the necessary facts. The Fund will always remain controversial as Mr. Wijnholds put it. However, this should not distract our efforts from doing our best in informing the public about our work in a transparent manner and to improve and strengthen our strategy in this regard.

We broadly agree with staff's comments on "Audience and Instruments". Efficient communications with the media require close and regular contacts with key press representatives. The Fund has to be open to the press and be prepared to answer all questions and to give the necessary explanations. This requires special skills when confidential information is involved or when certain information or judgements might have an effect on the markets. We certainly have to protect confidential information, and we have to avoid to irritate markets; but a "closed door" policy cannot be a response. Ensuring access to correct factual information is not only important for a trustworthy relationship with the media, but it will also in most cases limit the need for corrections later.

In this context, the question repeatedly came up, whether and under which conditions there should be contacts between staff missions and the press, and here, I would include the resident representatives also. In my view, these contacts are important. The press of the country has an interest to know what is going on, and, if the head of delegation would reject contacts, the press would certainly try to get the information from other sources which might be biased, misinformed and therefore skew the picture. However, it should be clear that staff or Management cannot speak for the institution or the Board respectively. It must be made clear that their views are only preliminary ones and subject to approval by the Board.

For the research and academic community, the approach taken so far, including the quite comprehensive publications program of the Fund as well as public seminars, seems to be appropriate. We are just starting an external review of the Fund's research activities which certainly will provide additional insights in this regard.

For the financial markets and the business sector, the Fund is already publishing a lot of information in the form of press releases and regular statistical publications. The recent events in Asia have demonstrated the need to improve transparency and to provide more, more comprehensive, and more timely data. This, however, is most and foremost the responsibility of member countries. The Fund can assist and even press them to publish the necessary data in a timely manner. The Special Data Dissemination Standard (SDDS) should help in this regard. It might even be worthwhile to consider whether staff should publish the names of those countries who do not adhere to the Standard.

With regard to the so-called "Civil Society", it is crucial that the Fund agrees to participate in a critical dialogue with all interested groups and tries to meet their particular information needs. There are different channels of communications, for instance direct contacts with representatives of the so-called "Civil Society", seminars, speeches, and press articles, just to mention a few. It is crucial to have an active and constructive dialogue with all members of the Civil Society, not at least because such groups have an important multiplier function when it comes to the attitude on and the understanding of the Fund and its role. However, we have to distinguish this communication objective from the decision-making process of this institution. The decisions in this institution are made by its members. These members have well-established legitimatized procedures of decision making, also with regard to decisions concerning the Fund. It is up to the members to integrate the views of the so-called "Civil Society" and the NGOs according to the national rules and practices.

Staff has made several interesting suggestions on improving the external communications strategy. Many of the suggested improvements concern improvements in our publications policy. I would prefer discussing these suggestions in a more comprehensive framework when we discuss the issue of Transparency and Fund Surveillance on July 22. However, I am happy to give some preliminary views.

We can support most of the proposals, but there are some which at least require further consideration.

For example, the suggestion to release all Chairman's Summing Ups of policy discussions might lead sometimes to misunderstandings and interfere with the objective to reach consensus. Like Mr. Daïri, I would prefer a case-by-case approach. Especially, when we have an ongoing process of discussions, we should have the opportunity to summarize interim steps in a way that provides confidentiality to our own discussions.

I would prepare to make the decision on publication case by case and, as a guiding principle, publish only such Summing Ups which conclude a series of policy discussions.

We are also hesitant to release IC-papers prior to IC-meetings. We have learned that it is sometimes not very helpful to put the members of the Interim Committee under public scrutiny as it might unnecessarily politicize decisions.

We are also not convinced by the idea to publish the agenda of Board meetings. We all know that quite frequently meetings have to be postponed for a variety of reasons. It could give the wrong signal to the markets if these sometimes rather technical postponements become subject of public speculation. However, we have always supported the idea to publish PINs; we might also consider to base them on broader information. Members should also be encouraged to publish PFPs, Letters of Intent. It might also be worthwhile to consider how this PIN-process could be adequately supplemented by a similar notice on program decisions.

In addition, I like Mr. Sivaraman's proposal to inform the public more comprehensively about events in the Board. For example, Management could inform the public bi-weekly or monthly on major events discussed in regular Board meetings based on PINs, PFPs, Letters of Intent or PIN-like notices on program approvals or reviews complemented by a more general information about policy issues.

Staff has also suggested some initiatives for the Executive Director's to support the Fund's communications policy. We agree that Executive Directors could play a stronger role, for instance in contacts to international and national media and civil society groups and by participating in seminars. However, such increased involvement should be based on some general guidelines. These might include an understanding that an Executive Director is free to present his own position to certain issues, to talk to the press about factual developments, but should refrain from commenting on confidential Board meetings and on positions taken by other Directors.

Mr. Dairi agreed with Mr. Esdar that Directors could play a stronger role in their contacts with the media, but added that Directors could be more effective if the existing limitation on attending seminars outside their constituencies were lifted.

Mr. Esdar recalled that as Chairman of the CAM, travel by Directors to seminars outside their constituencies had been allowed on a case-by-case basis, but agreed with Mr. Dairi that such travel should be generally allowed.

The Acting Chairman reminded Directors that under the group travel arrangement, Directors could travel to countries outside their constituency.

Mr. Toribio made the following statement:

> I welcome this opportunity to discuss the Fund's policy of external communications. As some of my colleagues, I have been lately very concerned about the public image of the IMF that has been subject to an unprecedented wave of criticism in the media. If unanswered, these continuous criticisms could seriously affect our credibility and, therefore, our effectiveness as an international financial institution.
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> I want to thank the staff for their document on this subject, with whose content I broadly agree. In particular, I appreciate their clear explanations about the audiences to whom the main communication efforts have been directed in the past and the different instruments which have been used to reach them in the best possible (albeit less than satisfactory) way.
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> We all have noticed how the communication efforts of the Fund have been intensified since the outbreak of the Asian crisis. The MD and the Deputy Managing Directors have participated in different forums with relevant speeches and interventions that have frequently found a coverage on the media. Senior staff members have also confronted the press or, at least, they have been regularly quoted by journalists, explaining the viewpoint of the Fund about different issues. I think the Board should not hinder in any way these staff activities. On the contrary we should appreciate the efforts and commend all staff members involved in them. We can trust their good judgement, although they should obviously be made accountable for any mistake or imprudence on their part.
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> I was, however, not surprised by the results of the survey conducted by the staff on "attitudes towards the IMF's external communications activities." There seems to be--as one could expect--a growing awareness of the Fund's efforts to make itself better known but, at the same time, there is a widespread conviction about the need to do more in different areas.
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> Two quotations made by the staff seem to be specially relevant here. One is that taken from Harold James. (on "International Monetary Cooperation since Bretton Woods") according to whom "the influence of the IMF at the heart of the international financial system depends largely on its ability to provide speedy, accurate, and persuasive economic analysis." The second text, quoted in Page 1 of the staff's paper, belongs to Camille Gutt who already in 1948 explained that ... "public relations ought to play a more important part in our life, here and abroad.

But this is a big problem, which has to be worked out in the light of experience--especially bad experience, which is the best teacher." Taken together, the two quotations stress the need to make a new and serious effort on our part to increase transparency, however difficult it turns out, even if it means breaking with many of our old habits, whose final results have not been very positive, anyway.

To be more concrete, let me express my support to most of the "next steps" envisaged by the External Relations staff for the near future and my conviction about the need to take seriously most of the other actions they suggest for the Board to consider.

I would, for instance, be in favor of providing more information by publishing the summing up of the general policy issues discussed at this Board. To the extent that they are "general" there should not be any difficulty for its diffusion. I would also be in favor of encouraging (never imposing) the publication of more PIN's, as well as of advising the publication of letters of intent and policy frameworks, although we should stop short of making it compulsory. As the staff remark, there is certainly a trade-off between openness and confidentiality, but I have the impression that we could push the borderline between the two in favor of more transparency, without seriously affecting the private nature of some pieces of information. In my opinion, we have been too cautious in this respect, even when no fundamental objections had been raised.

Surprisingly, even in my limited experience at this Board, I have witnessed a number of cases in which the main difficulties for publishing a Fund document had to do only with the specific wording of it. Once a more acceptable way to express the same idea or value judgement was found, nothing seemed to prevent the publication of the PIN or other papers. Of course, I do not imply that the difficulties to publish our documents are always and everywhere a case of pure semantics. Sometimes there exists, in fact, a basic disagreement on fundamental questions on the part of the countries' authorities. But I strongly suggest that we care more about the way our documents are written, specially when they are meant to be published, so as not to raise unnecessary conflicts that could have been avoided by a more careful wording. After making sure about the appropriate language, let us go ahead with publication.

I support the proposals of the staff's paper to expand the outreach of our external information efforts, and I even gladly accept their invitation for the Executive Director's to be more actively involved in press contacts and briefings as IMF officials that we are. Even though we are obviously accountable to the authorities that have appointed us, our first obligation, as Executive Directors, is to make sure that the IMF, as an institution, fulfills its role in a most effective manner. That is, at least, the way I understand our responsibilities and the external image of the Fund is, at this moment, one of the most important tasks we have.

I have, however, serious doubts about the wisdom of publishing in advance the Board's agenda. It may lead to strong pressures to receive also the documents of each announced meeting. Besides, last minute changes in the agenda (on grounds of technical reasons) are not unusual and it would become very difficult to explain them to the public at large.

As for transparency in the Fund's operations, I would underline the urgent need to find a way to simplify our language, so as to explain the IMF's role and activities in plain non-technical terms, understandable to the public at large. It would be interesting, for instance, to have a publication of the type "Myths and realities about the IMF" or something similar, launched, perhaps, by an outside publisher, with or without our support. The idea would be to face directly--one by one--the past and present critics about the Fund, which seem to be repeated once and again. These kinds of publications tend to be very effective among non-specialized readers.

Finally, Mr. Chairman, I understand the convenience to keep a constant interaction between the Fund and financial markets. I had already given some thought to that problem, although I must confess my inability to suggest specific ways to make it effective. The provision of punctual, accurate, and relevant information on our part has to be reconciled with the need to be neutral, so as not to assume an undue responsibility for market incidents, which could have serious consequences. Perhaps the staff could explore different alternatives in this respect and present them for future discussion, after requesting the opinion of market participants.

Mr. Dairi did not think it was realistic to expect the Fund to provide information on each member country to markets on a continuous basis. Continuity of information could only be achieved by the member country itself and by news agencies. The Board's views on a particular country were not continuous, and the Fund should not confuse markets by giving the impression that they could provide information on a continuous basis.

Mr. O'Donnell agreed with Messrs. Esdar and Toribio that publishing the weekly Board agenda was counterproductive. The purpose of increasing the Fund's transparency was to allow outside commentators the chance to give the Fund thoughtful input into the discussions. Releasing the weekly Board agenda a few days in advance would encourage lobbying groups to send letters to the Fund; however, that would not help the discussions. He therefore suggested that the work program, which outlined the key issues that the Board would be discussing, be released a few months in advance, without a reference to specific dates. That would avoid the problem of sending markets the wrong signals when an item was canceled, as would be the case if the weekly Board schedule were published.

Mr. Yoshimura supported Mr. O'Donnell's suggestion to publish the work program. At the same time, he pointed out that media people knew when an important country would be discussed at the Board and if it were delayed. Therefore, it would also be preferable to publish the Board schedule.

Mr. Toribio, in response to Mr. Dairi's concern about providing information on a continuous basis, pointed out that the staff had not recommended that. The staff had referred to maintaining a continuous interaction with financial markets. The main issue was how to make that interaction more concrete and fruitful.

On releasing the weekly Board schedule, Mr. Toribio said that he was not in favor of that proposal. He, however, supported Mr. O'Donnell's suggestion to publish the work program.

Mr. Schaad was not in favor of publishing the Board schedule because that could send the wrong signals to markets. He also agreed with Mr. O'Donnell's idea of publishing the work program.

Mr. Newman proposed that in addition to publishing the work program, the Fund could also issue a press release on what items the Board had covered the previous week, including information on whether a PIN had been issued.

Mr. Dairi said that he agreed with Mr. Newman's proposal. On the issue of continuity of information, Mr. Dairi asked the staff to clarify its position.

Mr. Sivaraman, referring to his suggestion that the Fund should hold monthly press briefing on the items that had been discussed at the Board, pointed out that the Indian cabinet followed such a practice, but it did not release an advance agenda.

Mr. Bernes thought that if the work program were published along with information on what decisions had been taken at the Board, some might find that confusing. He thought that it would be preferable to publish information on what the Board would cover over the following month along with the work program.

Mr. Kiekens made the following statement:

> The staff has prepared a stimulating paper for today's discussion.
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> Several Directors have long insisted on having a Board discussion on the Fund's approach to external communications. Information is essential for the well functioning of the markets and for reinforcing the Fund's authority. The Fund's authority also depends on its ability to get widespread public understanding and support for its policy advice and its decisions. There is no real authority without accountability. Accountability requires transparency, first of all in reporting to our country authorities, but also and increasingly toward the general public. All this illustrates the importance of an effective communications policy for the Fund. Today's discussion is therefore particularly welcome and none too soon.
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> The media, the financial markets, and the public at large have always desired information about the Fund's activities and openness concerning its views on current developments. The Asian crisis has not only greatly intensified this demand for information but also added a significant note of challenge and criticism. I think that overall, and especially given its limited resources, the External Relations Department and the Managing Directors have done a very good job in responding to these challenges. Nonetheless, like Mr. Wijnholds, we must admit that the Fund's responses so far have consisted of ad hoc reactions to singular events. The Fund lacks a more coherent framework and a more explicit understanding of the objectives and criteria for our communications policies. I therefore welcome Mr. Anjaria's announcement at the beginning of the meeting that this aspect will be further examined with the assistance of external experts and discussed in the Board, possibly by the beginning of next year.
>
> The staff paper explores ways of improving the Fund's external communications. Such efforts must begin by analyzing goals and shortcomings of

the Fund's present communication policy. Is it the case that the Fund, which has always tried to satisfy the public demand for information about its activities, and correct any misconceptions about them, can simply not keep up with growing public interest in these matters? If this is the problem, the solution is basically to reorganize the Fund's external communications activities to make the most efficient use of the Fund's resources.

On the other hand, to the extent that the problem also stems from the Fund's perceived secrecy about its activities and its confidential relations with its members, it is more deeply rooted and will require more extensive discussions of issues related to the Fund's surveillance function, which will be taken up in two weeks from now.

I will therefore refrain from discussing, today, the specific issue of how detailed should be the information the Fund provides to the markets about its policy advice to individual countries. It will suffice, today, to repeat my well known position that the Fund must promote the publication of data by the national authorities and promulgate standards which will enhance the transparency of government's economic policies. Also, the Fund should publish, and explain, its general economic policy prescriptions. Greater openness is needed with respect to economic adjustment programs that individual countries implement with financial support and enhanced monitoring by the Fund. Unless they are accompanied by greater transparency with respect to the policies pursued, Fund supported programs will lose their ability to quickly restore or improve a country's access to domestic and international financial markets.

After these general remarks, let me now turn to the discussion of some specific issues related to improving the Fund's external communication.

On the press releases, I agree with Mr. Wijnholds' candid observation that they are usually positive in tone and viewed in retrospect, their collective effect may even sometimes be seen as misleading. As a result, they may not be taken seriously by the markets. They should be more balanced. It could be useful to replace the table of economic indicators with a full-page table of selected economic indicators, including historical data and estimates for the current year, but omitting the medium-term forecast.

Releasing the Chairman's Summing Up of Board discussions on important policy matters, accompanied by a short, clearly written executive summary of the documentation considered by the Board, could be a useful way of informing interested outside audiences.

Releasing the documentation of the Interim Committee members a few days before their meeting is problematic. Committee members often receive these documents only in extremis. It would be unacceptable for the press to receive these documents before ministers and governors have had a chance to study them. Releasing these documents under embargo is not a solution, since this could lead journalists to put questions to Ministers or Governors before they are able to reply. I would therefore suggest that, a few days before the meeting, the Fund should issue a press release containing a concise presentation of the issue that the Interim

Committee will consider. Such a release will further document the press conferences given by the Managing Director and the Economic Counselor of the Fund for the same purpose. I think it could also be useful for the Chairman of the Interim Committee to give a press conference for the same purpose, or to join the Managing Director when he meet with the press, if this is permitted by the Chairman's travel schedule.

Nonetheless, I agree with the publication of the documents considered by the Interim Committee shortly after the conclusion of the meeting. There should, however, be the possibility for the Interim Committee to withhold the documentation of topics on which no agreement could be reached.

We will discuss in more detail the question of requesting member countries to release Letter of Intent and Policy Framework Papers at an upcoming Board meeting. For the time being, let me repeat that I underscore the need to provide more information on the country's policies, provided of course that market-sensitive information should not be unduly released.

I agree that the current 30-year period governing access to information from the Fund's archives is too long and can be substantially reduced, probably to ten years.

Executive Directors should assume their role in the external communication efforts. It is appropriate for a Director to meet with the press, with NGOs, or with the academic community. A Director can accept invitations to speak at conferences and publish articles on Fund activities. However, Directors should observe certain essential rules which should--as suggested by Mr. Esdar--be clarified in a code of conduct. The most important of these rules would be for Directors to avoid confusion between his personal opinions and generally accepted policies of the Fund. In addition, like Management and the staff, Directors must avoid unnecessarily airing the internal differences of views on Fund policies whose existence is natural and inevitable. A Director should not comment, outside the Board, on positions expressed by other Directors in the Board. But this is a good opportunity to say that in the Board, it would be desirable to have a more open internal debate on Fund policies than we are accustomed to. In commenting on the countries they represent, Directors should avoid overoptimistic assessments, and should make it clear that they are expressing their own opinion and not the Fund's.

I applaud the staff's effort to simplify the Fund's traditional language for non-technical audiences.

I do not agree that the Board's agenda should be published a week in advance. This would only add a new source of needless market perturbation. The markets would react when sensitive items are scheduled, postponed, or dropped from the agenda, no matter what the real reason. Trying to hide sensitive discussions by designating them as informal meetings, as suggested by Mr. Wijnholds, would undermine the credibility of our efforts to increase transparency. Moreover, the markets would soon cease to pay any attention to the announced Board schedule, since they would know that the discussions that interest them most are not included. Instead I agree with the idea suggested by Messrs.

Newman, Sivaraman, Esdar, and others, for publishing an ex post review of the Board's activities.

The Acting Chairman said that he was surprised that Directors were not apprised of the reasons for withdrawing certain items from the Board agenda.

The Secretary stated that the Secretary's Department tried to be as transparent as possible by informing the Board about any changes to the schedule as quickly as feasible. However, rather than explaining in an e-mail the reasons for withdrawing or postponing a particular Board item, it would seem more useful to provide that information during informal meetings on country matters.

Mr. Kiekens suggested that the Secretary explain to the Board why a particular item had been canceled or postponed on the first occasion that the Board met again.

The Acting Chairman agreed with Mr. Kiekens' suggestion.

Mr. Shaalan made the following statement:

Like other Directors, I welcome the opportunity to discuss the future of the Fund's approach to external communications. Of course, as many Directors have noted, the recent developments in global financial markets have increased the interest in the Fund and its work. These developments have put significant pressures on the Fund's communication capabilities, and have also raised important questions for our future activities in this area. I believe the key issue before us today is to not overreact to the fallout from the financial crises that surround us today. The basic question is where should we move from here on external communications, and how we can best achieve the objectives we have set for ourselves in explaining the Fund and its activities to the outside world.

For an old timer like myself in the Fund, I recall very well when the External Relations Department was named the Press Office many years ago. Its main function was to keep the Fund out of the news. I recall many times taking a taxicab to ask the driver to take me to the Fund. Very often, the driver would tell would tell me, "you mean the World Bank, don't you?" The Fund was literally kept out altogether from the news in its earlier days. In retrospect, of course, this seems absurd and it is. There was no communication policies, and this was an extreme position.

The paper before us shows the tremendous transformation in our communications policy, and how it has evolved over the years. Again, I would like to submit that we do not want to take decisions today that in retrospect, years from now, will be raising questions as to whether we have overreacted to the present situation. The paper notes two reoccurring themes of mainstream commentary on the Fund in the recent past. Namely, the need for greater transparency about the institution's work and processes, and the provision of more timely economic information to facilitate the smoother functioning of the international monetary system. In this connection, let me be the devil's advocate for a minute. It is probably fair to raise the question as to the extent to which we should accommodate mainstream commentary, and whether this would improve the functioning of the international monetary system. By raising this question, I do not want to impart the idea that more data would not improve the functioning of the international monetary system. Far from it. But, rather, I raise it in the context of what kind of data would serve the attainment of this objective. On one facet of providing information to markets, I fully share the remarks made by Mr. Wijnholds on the Fund's credibility arising out of upbeat management statements on major program countries that are closely followed by the markets. I will admit that on more than one occasion in the past, when the Asian crisis first broke out, and following an agreement or a successful review of a program, I was among those who encouraged management to issue these press statements in the hope they would calm financial markets. Now, I do have reservations on this procedure for the same reasons cited by Messrs. Bernes and Wijnholds. I hope we can have a close and impartial assessment of this information strategy. I share Mr. Sivaraman's reservations on the statement that one of the purposes of external communications is to influence economic policies in individual countries. As the Director of EXR rightly observed, our views may have an impact on the reform effort in a certain country, but that should not be the purpose of external communications. I think there is a difference.

Looking ahead in this area, I would like to stress the importance that we must attach in all our communications policies with the preservation of the Fund's critical role as a trusted and confidential advisor to members. This, to my mind, is of paramount importance, and will guide my views on the issues raised in the paper. I note, of course, the paper does enunciate this principle rather prominently. However, some of the suggestions for expanding the flow of information to markets could adversely affect the relationship between the membership and the Fund, to the detriment of both parties. Here, I have in mind the proposal that would require members making use of Fund resources to release letters of intent and policy framework papers. Countries should be encouraged to do so, but not required. Similarly, expanding the information contained in press releases or press information notices on use of Fund resources to include forecasts could be, as many Directors have noted, a dangerous area. If the forecasts are missed for one reason or another, and the information becomes public, the markets would probably react adversely to that misforecast, when the problem could be that the forecast was initially too optimistic. We have seen that repeatedly in recent programs with Asian countries where we have tended to be quite optimistic in our forecast, including, in fact, in some key areas, such as budgetary developments.

The report suggested to further develop the PIN process. When we established the PIN policy, there was agreement that we would review our experience. Therefore, any proposed changes should await this review.

On the frequency of staff members' contacts with the media, I continue to believe they are extremely useful, but they should be subject to more rigorous control. At present, statements by the staff to the media on critical matters are commonplace in the Fund. Such contacts should be limited to the most senior staff members. Similarly, press conferences at the conclusion of a mission, where the authorities are invited to participate, should only take place at the request of the authorities.

I can go along with the proposal to release important policy papers and related summings up, but, like Mr. Daïri and Mr. Esdar, it should be on a case-by-case basis. Certainly, this would promote a clearer understanding of the institution's work. However, that would not be the case with releasing Interim Committee documents prior to the committee meeting, even though they would be embargoed until that date. They can be released, however, after the meetings.

Improving the transparency of the institution and making its activities more user friendly should rank high on our communications agenda. I fully support these efforts, and would encourage establishing a unit to respond to, what is, at many times, misguided criticism of the institution. However, I have serious reservations, like many others, on the merit of release the Board agenda in advance. I can go along with informing the press as to what happened during the previous week or the previous period, but not as an advanced public release. To my mind, it serves little purpose and poses a potential danger when a country item is postponed.

Finally, once we have decided more concretely on our communications policy, we should provide budget estimates to the cost of this policy before we go any further.

Mr. Al-Tuwaijri made the following statement:

The paper before us raises important issues for the Fund. The distinctive function of this institution has made the task for external communications crucial and challenging, especially in the wake of the Asian crisis. Indeed, the crisis has increased interest in the institution and has brought the Fund's purposes into sharp focus. However, a substantial lack of understanding of the Fund's recommended policies has remained.

To increase such understanding and generate public support the Fund needs to better explain the rationale and potential benefits of its programs. More effort is also needed to simplify Fund language for audiences unfamiliar with our work. In this regard, it goes without saying that the Fund's role should only be complementary to the authorities' efforts to create a national consensus.

Here, let me stress that the Fund has already taken a number of steps in this respect. While more effort may still be needed, it is important at this stage to take stock of the progress already made. Therefore, it will be useful to await results of the forthcoming consultants' review before embarking on major initiatives. In this context, I agree with Mr. Wijnholds that much more can be done with the information already being disclosed.

That said, let me highlight few points.

While external communications play a significant role in promoting understanding of the Fund's work, the scope of the external communications must remain within the boundaries of confidentiality that uphold the Fund's reputation as a trusted institution. This will strengthen confidence and collaboration between country authorities and the Fund. It is encouraging that staff is aware of the need to respect individual country sensitivities and circumstances. Indeed, while greater openness and transparency in the Fund's work is desirable, increased publicity of Fund views can impact negatively on members' cooperation, frankness, and trust a point which was expressed eloquently in Mr. Yoshimura's gray and raised earlier by Mr. Shaalan. Maintaining the cooperative nature between the Fund and its country members is critical. Therefore, I remain of the view that publication of staff reports for Article IV consultations will be counterproductive. Moreover, I share other Directors' skepticism about the benefit of releasing the Board agenda and the Interim Committee documents in the manner as suggested in the staff paper.

Second, external communications can be enhanced through Fund missions. Contact with outside experts should be focused on exchange of views. It is important to note that understanding outside views and incorporating them into Fund assessments and recommendations would contribute to effectiveness of the Fund's work. Participation in outside events is also important for both board members and management.

It is crucial to clearly state that public statements or publications originating outside the Board do not necessarily reflect the views of Executive Directors. This is important as it is commonplace for the media to define the ideas of Fund staff or management as "Fund views."

Finally, the primary aim of external communication policy should not be to gain popularity, but rather to improve public understanding of the purposes, work, and policies of the Fund. While responding in an effective manner to criticism and increasingly sophisticated public inquiries could strengthen the Fund's credibility, our communications strategy needs to be more proactive.

Mr. Zoccali made the following statement:

This Chair welcomes the attempt to lay a out a more integral strategy to better explain the Fund's core activities in the context of intense media interest, the surge in private financial markets, the reinvigorated influence of civil society organizations and the technologies which have imposed a new information standard.

In these circumstances, outside enquiries have not only become more sophisticated and far-reaching but are likely to increase. Moreover, given that we find ourselves in the midst of a propagating crisis, new uncertainties are to be expected regarding the effectiveness of the Fund and even the instrumentality to deal with the problems of a rapidly evolving international financial system. Nonetheless, we would caution against overreacting or fostering information inflation.

While we fully recognize the need to build on the on-going work to increase transparency in the Fund to facilitate more informed discussion and consensus on the complex issues of individual and global adjustment, we favor a prudent approach to external communications, similar to that of central banks in terms of completeness, clarity and content of information to be disseminated, and with a certain aversion to front pages.

Appropriately focusing the message and targeting the audience are critical. Although we generally agree with the work done thus far and with the thrust of the proposed new initiatives, we very much share the definition of the purposes of the Fund's external communications advanced in Mr. Sivaraman's grey.

It has to be recognized that Fund views on some aspects of economic policy may not fully fit the category of universal truths or best practices, keeping in mind also the difficulty of appropriately taking into account at every juncture of the decision making process countries' histories, sensitivities and circumstances. Suffice it to point in this regard to the evolution of the Fund's own views, for example, in Asian program countries as the crisis unfolded. Therefore, given that the judgmental aspect is intrinsic to any Fund policy advice, we must keep in mind that ultimately its legitimacy rests with those that represent member countries. In that light, Board views as reflected in the minutes should be made available, in particular Chairman's Summing Up of Board discussions, including those on important policy matters and policy papers for the Interim Committee. Having said this, we consider that the timing of their release merits further consideration.

The suggestion in page 15, line 3 that the Fund's external communications specifically "should contribute to better informed financial markets" goes beyond the provision of adequate information. We should avoid giving the impression of special treatment as a result of our efforts to improve transparency, keeping in mind that risk is the business of financial markets and proper management, its value-added.

The Fund should also not be seen as a surrogate for national authorities, and these must be fully on board when it comes to engaging legislators directly or participating in the domestic political debate over reforms, often aimed at dismantling entrenched vested interests. Thus, while the focus of the paper aims rightly at improving external communications without undermining the Fund's cooperative character, its privileged relation with sovereign members and living within available resources, an important issue, namely the role and responsibility of member states in this area is not fully factored in.

Similarly, the potential for confusion in the message from an increase in the number of Fund messages. The Managing Director must remain the definitive voice of the institution. In this regard, the more pervasive involvement of Fund staff, management and even Executive Directors in the political debate in any member country, raises additional questions of effectiveness and not least of accountability. As a corollary, the issue of internal transparency would at some point warrant further consideration of work procedures to assess the value-added of the current system, whether it allows for adequate prioritization, and whether transmittal of available in-house information to Directors, even regarding countries in their constituencies, is adequate for the broader role in external communications that some envisage for its members. Regarding the latter, our view is similar to that of Mr. O'Donnell.

With these general comments, allow me to refer briefly to those Next Steps in Section VI which, in our opinion, would pose difficulties.

On the initiatives to make more information available to the public: first, it is the responsibility of the host-country authorities to systematically inform the public regarding economic developments and the status of the relationship with the Fund. Thus, mission chiefs may persuade but it is the authorities that should organize press conferences to disseminate information at the end of Article IV and program missions and invite mission chiefs to participate, rather than the other way around. Second, the requirement on member countries making use of Fund resources to release letters of intent and PFPs, which has been a long-standing practice of authorities of this constituency, is reasonable. However, flexibility should be afforded to the respective authorities as to the timing of the release so as not to hamper efforts to broaden the base of public support or undermine ownership.

On expanding outreach, we agree with the aim of covering more audiences and regions, however, full coordination with the relevant authorities in the country is essential. Engaging legislators and representatives of civil society may be particularly sensitive as it entails the risk that the Fund be seen as interfering in the domestic political process or appearing to favor certain groups of civil society.

With respect to improving transparency, we welcome the provision of basic information on the Fund's finances and operations as well as release of Executive Board agendas to focus attention on its work priorities. I have serious doubts, however, regarding the desirability of advance releases as this may unduly politicize decisions, or hasten conclusions that are not yet fully distilled. On the pilot program proposal to produce documentaries on the work of Fund country missions for national television, it resembles a marketing ploy and suggests over exuberance in our communications effort.

Abandoning selectivity in favor of greater assertiveness in the Fund's external communication policy, should be carefully assessed, keeping in mind that the media is driven by the need to make an impact. Thus, the Fund should not feel compelled to react to every criticism to gain popularity. Moreover, even the Fund will be hard pressed to have the last word, or avoid misrepresentation and distortions, when dogma and vested interests are at play.

Finally, we support a reassessment, in early 1999, of the experience gained over the intervening months with those initiatives that today receive widespread Board endorsement. Its scope should include their cost-effectiveness and additional resource implications.

Mr. Zhang made the following statement:

Let me first join previous speakers to thank the staff for the well-written paper on the Fund's current approach to its external communications and suggesting the steps ahead. Since the eruption of the Asian crisis, and the Fund's heavy involvement in designing programs for the affected countries, there has been increasing interest in the Fund's work, its views, and policy advice. Indeed, over the past year, the Fund has stepped up its efforts with regard to external communication. Copious information has been disseminated through publications and the Fund's website. Management has joined in more international seminars and with the media to explain the Fund's role, particularly with regard to the programs in Asia. Many seminars have been organized to provide a forum for an exchange of views on various policy issues. Yet, it is also understandable that there is still a growing demand for information on the Fund.

Therefore, I welcome the staff proposals to strengthen work in the external communications area. The four aspects mentioned in the staff paper are broadly agreeable.

The provision of more information should allow a wider spectrum of the general public to better understand the work of the Fund. However, the kind of information released should be in line with Board decisions. The Board's consent should be sought in advance. At present, an increasing number of member countries release their Letters of Intent and Policy Framework Papers. This is useful for both the general public and the market—knowing more about programs and demonstrating the role the authorities play. We can go along with the current practice of encouraging members to release such documents. As for PINs, release should remain on a voluntary basis because varying circumstances and sensitivities in different countries warrant different considerations. The proposal to enlarge the program of Economic Fora is particularly welcome as this would be the most direct way for the Fund to respond to critics, and exchange views, and provides the Board with an opportunity to hear different opinions. I also support the distribution of complimentary copies of Fund publications to university libraries and national libraries in developing and transition economies.

As regards the substantial reduction of the time period governing access to the Fund's archives, I learned from my EXR colleagues that the present 30-year rule was approved by the Board. Therefore, I would appreciate it if the staff could prepare a paper providing their analysis and recommendations. I hope we can have an early discussion on this topic.

The Fund's outreach program to a wider spectrum of the population and various regions of the world is agreeable. It seems to me that there is a missing link in the chain of the Fund's effectiveness in external communications, and that is the role of member countries. I believe the Fund should work in close collaboration with member authorities and that the work of external communication should in no way jeopardize the relationship between the Fund and its member countries.

I particularly welcome the publication of fact sheets in simple and plain language. This should help the general public better understand the Fund and its operations. The opening of a small unit in the External Relations department to coordinate prompt response to critics is also welcome.

As for the publication of Board agendas, I agree with Mr. Shaalan's point of view. We agree with the idea to conduct a review of our external communications work again next year.

Mr. Zakharchenkov made the following statement:

First of all, the issues raised in this paper are very similar to those that will be discussed in the forthcoming papers on "Transparency and surveillance" and on

"The Fund's interactions with financial markets". As most of the views will descend from one meeting into another, it is regrettable that we have such a large lag between the discussions, instead of putting these issues into one set of papers.

It has become evident that there is a need for the Fund to enforce its external communications. However, in this connection, I found myself in agreement with Mr. Hansen's point that the Fund is responding by increasing the volume of its message, thereby exposing itself to the risk of overexpansion. The desire to cover as large an audience as possible will be limited by the necessity of the External Relations Department to operate within the existing budgetary framework. Any increase in the budget should be carefully considered, as mentioned by Mr. Shaalan. Finally on that issue, I would be very much in favor of a more targeted approach to the potential audience. The same applies to the Fund's response to critics.

Turning now to the next steps, I think that most of the measures proposed by the staff to enhance the effectiveness of the Fund's Public Relations are reasonable and correctly focused, and they will eventually help to promote better public understanding of the operations of this institution. We are also interested in reviewing progress in this area. Also, I agree with other speakers that the operations of the Fund's public relations department might require external evaluation in the future.

Let me now provide some comment on specific issues.

- We are in favor of making more information available to the public, including publishing Letters of Intent, PFPs, PINs and other relevant documents, subject, however, to such publication not being compulsory. As has been pointed by a number of speakers, some of the documents contain information that is not publicly available and is market or even politically sensitive. We think that the countries concerned should have the opportunity to delete this information.

- We also have no objection to reducing the embargo period for access to the Fund's archives. As Mr. Sivaraman noted, the Fund is not engaged in activities, the disclosure of which, would negatively affect in any way, member countries national security.

- We do not think that Executive Directors should be more involved in communication with the media. As Mr. Hansen pointed out, they might appear to be in a position to defend countries in their constituencies, which is not necessarily in the interest of the Fund. Correspondingly, it might be difficult to ensure consistency in views expressed by Executive Directors and other Fund officials. In contrast, resident representatives should be more involved in communications with the media and the public in the host countries.

I would like to make one technical suggestion to improve the IMF website. Some WPs and PPAAs are published in languages of certain member countries. It would be useful to put them on the site to increase the potential audience by those who do not read in the English language.

Finally, I would like to reiterate the point made by Mr. Wijnholds. The Fund's instruments to address economic difficulties in the member countries look more like a whip, than candy, and it would be naive to expect that these measures will become popular among a broad audience. This is, obviously, a constraint that we should live with. Therefore, priority should be given to obtaining respect and credibility, rather than popularity.

Mr. Taylor made the following statement:

Communications is a critically important subject, and the staff has prepared a useful paper. The paper, however, would have benefited from a clearer distinction between matters with a high policy content, such as the architecture of the Fund, and country-specific matters. On the former category, although the audience no doubt has expanded, the audience is still largely composed of two groups: members of the club and NGOs, whose ideological bent is different from our own. The Fund is still in a position of needing to solicit an audience in an effort to explain important developments. Country-specific matters are quite different.

Transparency and greater information are fine until it applies to the Fund. Most of my larger countries are encountering difficulties with the existing level of information and transparency. I think it was Mr. Newman who pointed to the existence of the secret side letter: more transparency runs the risk of leading to less candor. Box 4 refers to this as merely an argument. However, it is likely to be a fact if we do not go about this in the right way. The more experienced staff members are well aware of that. In a recent case, the mission chief to one of my countries was not in favor of releasing the concluding statement, when there was some inclination to do so by the country, because the statement would become less candid. For those of us whose constituency countries have some problems in this area, our responsibility is to try to encourage a better understanding and a better acceptance of more information. Those who do not have this problem have to have some patience and try to give us some help in that. One way in which that could be done is to not require things, but to strongly encourage, for instance, the publication of information.

On country-specific issues, a number of colleagues have referred to Mr. Wijnholds' comment on press statements always needing to be not too candid. The practice of announcing the details of programs that have been negotiated with countries before they are brought to the Board, which has now become universal practice, detracts seriously from the role and the authority of the Board, and weakens the institution as a whole. This is an issue which we all need to give some more thought to. Mr. Harinowo referred earlier to a most unfortunate episode where there was an unknown Fund commentator on a particularly important aspect of policy in Indonesia. This was certainly also noticed in Australia. As I recall, management did not clarify or deny this observation; it said nothing. That was a big problem.

The outside world is increasingly saying that the Fund cannot learn from the past. The Fund's denial of any wrongdoing is certainly a problem. In talking to my Australian constituents, the weight of opinion is that the Fund got it wrong in Asia. One means by which I meet that view—this may be of particular interest to the Director of EXR—is the area of friends of the Fund. It must not go without notice that one of the principal supporters of the Fund is the President of Korea, and he is willing to say so in any forum, notably recently in the U.S. Congress. The President gives the Fund unreserved and comprehensive support. Korea has gone through very difficult times, like almost no other country. The recently-retired President of the Philippines was another prominent leader who was willing to say that the Fund's medicine must be taken, and he was willing to say that in respect to other countries, not just his own. Of course, highly placed people who are antipathetic to what the Fund is about can have an equally negative influence.

The specific suggestions listed on pages 15 and 16, except the first one, are unexceptional. All the other ideas are fine. On the first bullet point on page 17, it would be desirable for summings up of policy discussions, together with a lay explanation of what the issues are, to be published. The difficulty there is that the summings up at the moment do not have ownership in the Board. A draft summing up would need to be circulated in advance of the discussion to enable Directors to sign off more effectively, because I sign off on them on the basis that they will not become public knowledge. Although releasing policy papers for the Interim Committee is desirable in principle, there are likely to be a number of instances where that is not feasible, and the only way to approach that is on a case-by-case basis.

Requiring member countries making use of the Fund's resources to release LOIs and PFPs is a highly desirable development. Although it is no longer an issue for my constituents, there were some difficulties along the way. This is an area where we have to have an extremely broad-based consensus before we can move. In that context, we needing to build a constituency among our constituents. The problem is that the publication of the details of Fund views, policy advice, and programs may lead to a loss of confidence in countries' policies, and, it might lead to criticism of public officials.

On expanding outreach, I generally endorse most of the suggestions, except advertising. On the guidelines for the behavior of resident representatives, are these guidelines cleared with the countries concerned? That would be desirable, otherwise there are likely to be problems.

The work program would have to be substantially rewritten to be comprehensible. It is sometimes barely comprehensible to me as it stands. However, provided that it could be rewritten, I would support its publication.

The idea to invite one or two national television corporations to produce documentaries seems good in principle. This was done recently in Australia, and what struck me was that everybody at the Fund thought that that production was unduly critical of the Fund; however, everybody in Australia that I spoke to felt it was balanced. That is a difficult problem, and I am not sure how to proceed.

Finally, given the amount of time and effort in addressing this important subject, we have to stop worrying about it and get on with the job at hand.

The Acting Chairman agreed with Mr. Taylor on the problems associated with television documentaries. He recalled a recent documentary on Uganda which had been very critical of the Fund; however, the Director of EXR thought that it had been balanced. On the criticism of Fund programs in Asia, he asked Mr. Taylor to explain what he meant when he said that the Fund "got it wrong".

Mr. Taylor replied that the Fund had placed an undue emphasis on tightening policies in Asia. At the same time, the Fund had expanded its area of responsibility into structural adjustment issues, which had no bearing on the exchange rate or on the external stability of countries. By bringing such politically-sensitive issues into prominence, the Fund had aggravated market perceptions. In those situations, it had been difficult to defend the Fund, especially when, on several occasions, Fund representatives had not been willing to concede any error on the part of the Fund. He recognized that Fund representatives needed to be very careful about admitting an error because that could be blown out of proportion by the news media. It would be useful to have a Board discussion on what the staff, management, and the Board had done in Asia.

Mr. Toribio supported Mr. Taylor's concern regarding the common practice of announcing to the press agreements that had been reached with some countries before the Board had had an opportunity to discuss that them, and asked that that point be included in the summing up.

Mr. Taylor agreed with Mr. Toribio's point on including that concern in the summing up.

The Acting Chairman pointed out that mission chiefs oftentimes made statements to the press in response to requests from member countries.

The Board should perhaps be more transparent, the Acting Chairman continued. For instance, in the case of Indonesia, some of the measures that had been criticized had been supported by the Board. He reminded the Board that the staff's work was based on their instructions and management's instructions.

Mr. Esdar recommended that the Board discuss how information was provided to the public before drawing any conclusions. For instance, if a program had been agreed to with a country, the Fund needed to send positive signals to the markets, given that there were costs associated with saying nothing.

Mr. Toribio stressed that the Fund needed to be clear when it made public statements when an agreement with the Fund had not yet been reached, as such announcements weakened the authority of the Fund. In those cases, the Fund should therefore say that an agreement on a program would be proposed to the Board.

The Acting Chairman, noting that the Board had the final say on decisions, agreed with Mr. Toribio's point.

Mr. Esdar recognized that, in certain situations, the Fund had been forced to make statements before a program had been negotiated with a member country. That had occurred because management had been under intense pressure to send a signal to markets. However, if the

Fund sent the wrong signal, the situation could be made worse. The Fund should therefore have time to consider the best approach before any conclusions were drawn.

Mr. Yoshimura agreed with Mr. Esdar that further consideration should be given to the best approach to follow. It was awkward when a mission chief or resident representative stated that an agreement had been reached with the authorities before it was considered by the Board. At the same time, there had been instances when country authorities had reported incorrect details about a program. In those circumstances, such statements should be corrected by a public statement from the Fund.

Concerning the criticisms of the Fund's programs in Asia, Mr. Yoshimura pointed out that, in many cases, those criticisms had been made by prominent U.S. academics to draw attention to themselves. He recognized that some of that criticism could be useful, and supported Mr. Taylor's suggestion to have a discussion on that topic.

Mr. Wijnholds stressed that it was difficult in crisis situations to avoid sending any signals to markets. However, any announcements needed to be clear that the final decision rested with the Board. It would also be useful if the full Board were informed of such announcements, perhaps via informal briefings.

Mr. Kiekens said that it was difficult to wait until the Board discussed a program to make a press announcement. In fact, the authorities were the first ones to want to make that information public. One way to improve that situation would be to hold informal discussions between management and the Board on how to proceed in particular cases, as mentioned by Mr. Wijnholds. Furthermore, when making announcements, management should always be clear that the Board made the final decision. A change in the culture of the Board was also needed. Although in most program cases there had been broad consensus by the Board, there had been occasions when there had been strong opposition to a program. In such cases, it had been acceptable for management to state publicly that the program had been renegotiated, and should not be seen as a defeat.

Mr. Yao agreed with Mr. Esdar that in many cases the authorities had pushed the staff to give their views on whether the Fund would approve the program. Unfortunately, the next day, the newspapers had reported that the Board had approved the program.

Mr. O'Donnell noted that the issue of press statements was a difficult and complex issue. Therefore, there should be a follow-up discussion on that topic, and that should be reflected in the summing up. As mentioned by Mr. Kiekens, the Fund was placed in a difficult position when the markets thought that a program had been approved. Even if the Fund said that the program was subject to Board approval, news editors tended to strike that part out.

If the Fund changed the way it made public statements, it should think carefully how to make that transition, Mr. O'Donnell continued. Many speakers had pointed out that the Fund's press statements tended to be overly positive, particularly with regard to the Asian crisis countries. Therefore, if the tone of those statements were to change, the markets had to be aware of that or else they might overreact.

The staff and the Board needed to work more closely in the area of communications, perhaps by creating a joint committee of the Board and staff, Mr. O'Donnell remarked.

Mr. Kiekens pointed out that when the Board asked for a renegotiation of a program it did not reject that program. For instance, after the discussion on the seventh review on Russia, the markets had perceived the decision of the Board as a postponement of the program rather than a renegotiation because the prior actions had not been met. The Fund had done the right thing by explaining that to the press. Perhaps because Russia had been in the middle of a crisis, the markets had remained calm following that announcement.

The Acting Chairman stressed that management would not come to the Board with a program unless there was broad support for it. Further, in delicate cases, management met with Directors bilaterally, and, if prior actions had not been met, the program should not be brought to the Board.

Mr. Kiekens acknowledged that in most program cases there was full consensus from the Board. However, there had been cases where management had proposed a program to the Board when there had been no agreement. For instance, in end-1996 when Russia's program had been agreed to by the Board, 23 Directors had expressed reservations about the program, but in the end had agreed to the decision. Four weeks later, the program had gone off track.

Mr. Toribio stressed the importance of preserving the authority of the Board. The Fund's communications efforts should not publicly undermine that authority. Unfortunately, that had occurred when early announcements of an agreement had been published prior to the Board's approval.

After adjourning at 12:48 p.m., the meeting reconvened at 3:00 p.m.

Mr. Milleron made the following statement:

> Over the last three to four years, it seems that there has been a significant change in the way bureaucrats consider information. Before then, many people used to consider that a good way to have power or influence was to have more information than others, and to keep that information as confidential as possible. Perhaps in this new context, greater influence could come from sharing and disseminating information through various channels. Most of us seem convinced that we should try to promote the dissemination of information as broadly as possible.
>
> The Fund should provide more information to the public, particularly on its success stories. In that context, the Fund's website is one of the best among the international organizations, and is well linked to other institutions.
>
> Important steps have been taken to improve the Special Data Dissemination Standard. However, in order to have a hyperlink between the statistics and the data themselves, we need to convince our statistical offices and central banks. Directors should do their part on this issue as it is an important communications tool.
>
> External communications deserves special attention. The responsibilities have to be clearly defined, especially on the role of management. Certainly, external communications can not be separated from the substantive items that the Fund was engaged in. In that regard, the role that the First Deputy Managing Director plays in this organization in presenting the views of the Fund to academics is crucial.

Moreover, the Fund should lobby legislators and civil society because it was often confronted with cases of disinformation.

The Fund should try to disseminate as much information as possible, especially before the Interim Committee meetings. Although the Fund has to exercise caution in that regard, it needed to move forward in the area of information dissemination. Also, the Board needed to have the freedom to discuss issues candidly. I am therefore not in favor of publishing the Board's weekly agenda. If the Fund's communications strategy posed a danger to the credibility of its policies, then the Fund has to be careful. Finally, I support the idea of a code of conduct for Directors.

Mr. Dairi said that, although he supported the data dissemination standards initiative, he felt that the Fund should not get involved in providing hyperlinks between the statistics and the data. He thought that it would be preferable to allow the private sector to provide that information.

Mr. Milleron pointed out that international organizations had a responsibility to provide information, even in the area of standards. Being able to compare the GDP of Japan with the GDP of Morocco had been a major accomplishment. Clearly, the Fund should not be the only international organization involved in that area; it should work closely with other international institutions.

Mr. Morais made the following statement:

The establishment and maintenance of good communications between the Fund and the outside world is important to the Fund on at least two grounds. First, it establishes a broader appreciation of the surveillance role of the Fund as a key instrument for facilitating the smooth functioning of the international monetary system. Second, good communications help build support for Fund involvement in the adjustment and reform effort in member countries by making more transparent the policy recommendations it advocates. From this perspective, the staff papers offer several valuable suggestions for getting the Fund's point of view across to the public. However, it is important to realize that effective communication is a two-way process. Expanded contacts with broader community accords valuable opportunity to the Fund to learn from the public. This means that the Fund's attempt to reach out to the public should be more than an image-building exercise or a move to silence its critics. Specific experiences in member countries could make an important contribution to the enhancement of Fund policy.

The Fund has been developing and using a wide range of instruments over the years to target a broad spectrum of the community, ranging from the official public community to civil society. I particularly welcome the increased contact between Fund management and staff in the wide range of NGOs, religious groups, and organized labor movements in my constituency, as it is making an important contribution to the efforts of my authorities to enhance better understanding of the challenges of economic management resulting from an increased globalized economy. However, I share the reservations of many Directors on the upbeat press statements and its impact on Fund credibility. In this regard, I associate myself with Mr. Wijnholds' proposal regarding the nature of such communication.

Section V and Annex IV of the staff paper seem to suggest that despite past efforts, the Fund has not succeeded in shedding the public image of it being a secretive and rigid institution, including in the way it formulates adjustment and restructuring policies. This means that as we try to encourage greater transparency on country-related matters, more should also be done to make the Fund's internal operations and decision-making processes more open. Staff has proposed an extensive framework of actions that could be implemented to further improve the quality of Fund contact with a broader community. I generally agree with these proposals, and will make only a few additional comments.

Press conferences at the end of staff missions could be a useful forum for dialogue. However, like other Directors, I agree that, while the authorities should be encouraged to arrange such conferences following the conclusion of Article IV consultations, the initiative should be taken by the authorities themselves. I can support the release of results of surveillance and program discussions, as they will have a positive impact on market sentiment and policy credibility. However, while I am not completely clear about any counterargument to this assumption, I wonder whether the Fund does not risk precipitating a crisis if the authorities choose not to follow the Fund's advice or, even in some instances, conclusions the Fund staff have arrived at.

I welcome the specific recognition that the Fund's effort in Africa should be substantially expanded. However, this must be a learning process for both sides, especially given the increasingly important role civil society plays in shaping and changing the policy debate in Africa.

Finally, I join other Directors in agreeing on an interim assessment of the experience with the enhanced external relations expertise in early 1999.

Mr. Giustiniani made the following statement:

Transparency and accountability are two catchwords used often in the case of the Fund, usually to underline the lack, or at least the insufficient level, of both of them. I have the impression, however, that sometimes these problems tend to be overemphasized, and, in particular, I agree with Mr. Shaalan that we should not overreact to the current circumstances.

As noted in Ms. Gut's quote, the Fund is difficult to explain because it is bristling with technicalities. This is an area where we can certainly improve our performance. However, we have to recognize that our institution will always be subject to criticism because this is an inseparable element of our activity. This institution has the unpleasant task of trying to convince member countries what is best for their own prosperity and for the prosperity of the international community at large. This is an area, as Mr. Esdar said, where our efforts to improve our communications strategy are bound to achieve limited results, unfortunately. In my view, the problem with communications has different dimensions, depending on the nature of the information and the audience to which the information is addressed. On the issue of the nature of information, I agree with Mr. Taylor. If information concerns the Fund's organization, institutional purpose, and policies, then improving the public's understanding is certainly welcome. If this means to provide more basic information in a more simplified way, or to more rapidly provide a reaction to unfair criticisms, I have no problem with that. In particular, matters as greater openness may be mutually beneficial for the Fund and the rest of the community. The opening of the dialogue to other components of the international community can certainly help to clarify to the outside what the Fund is aiming at and for what reason. At the same time, the contribution of the international community can certainly enrich the debate within the institution. If this means that the Fund may have to reconsider its policies, we would welcome that occurrence. However, I have reservations when the subject of advocating greater openness becomes the policy dialogue between the Fund and member countries, or part of the Fund's decision process. We should consider this subject carefully because we know where to draw the line.

There are different types of communications strategies, depending on the different audiences. I am not particularly concerned with the problem of the relationship between the Fund and the financial markets. This is an issue that always comes out in our discussions on surveillance. I would like just to reiterate our position that more contact between markets is always useful, but the fudiciary role of the IMF should be paramount. Markets are large and have many agents with legitimate, but diverse needs. Although we do not necessarily know better than the markets, we often know something different. Complementarity can be exploited, but the different roles should be kept in mind.

On the specific issue of providing more information, I share the comments made by Mr. Shaalan and Mr. Zoccali. In addition, while I can agree with the proposal to release the chairman's summing up on Board discussions on important policy matters on a case-by-case basis, I agree with Mr. Kiekens on the problem of releasing policy papers to the Interim Committee before these are discussed or received by the Board, given that sometimes we receive them the very day of the Interim Committee meeting. On the PIN, I share the comments made by Mr. Kiekens. Although there was scope for improving the cooperation between the Fund and its member countries to promote a better understanding of the Fund' policies, I agree with the previous speakers that the choice to release the letters of intent and policy framework papers should be made by the authorities. I agree on reducing the period governing access to information from the Fund's archives to 5 to 10 years. On releasing the Board agenda, I agree with Mr. Sivaraman with having an ex post brief on the major decisions.

Mr. Schaad made the following statement:

"We failed in our duty of publicizing, explaining the Fund," Mr. Gutt said in 1948. When I read an average newspaper article on the Fund or when I have to deal with members of parliament back home I must admit that I get a sense of déjà vu. I am very glad that we have the opportunity today to discuss the Fund's PR approach and the problems we undoubtedly have in this area.

For this reason I would have expected a broad analysis of this issue, including some strategic considerations. I feel this is not what the staff presents in this report. The document certainly contains some useful pieces of information but it remains largely defensive. What I particularly missed is a distinction between a 'technical part' of external communication (i.e. the work of EXR) on the one hand and the problem of transparency of the Fund (or the content of information) on the other. I will address these two issues in turn.

Let me start with the technical part. First, I miss an exposition of a clear vision of what goals external communication should achieve. The three purposes listed on page 2 are certainly all laudable, but they remain too general as guidelines for EXR's daily work.

Second, concerning the instruments and addressees of the Fund's external communication, the paper basically shows that EXR is very active and that the demand for its products has sharply increased over the last months. However, activity alone will not ensure effectiveness, as we all know. What I would have appreciated - beyond what was provided in the Interim Assessment section - is an analysis of the basic question whether the message of the Fund has reached the intended addressees. I am afraid that this cannot be done with a non-representative survey as in Annex IV, concluding that EXR's work could be further improved in the areas of explaining the Fund and defending its point.

Without such an analysis it is not entirely clear to me what should be achieved with the proposed next steps. I will not comment on all of them. Many of them are operational and it is not the job of the Board to teach the Fund's PR professionals. Nevertheless, I would like to address some aspects of EXR's work:

Let's start with simplicity. I know from my own experience that the information material prepared by the Fund is often too complicated for the general public. Therefore, I strongly agree with the staff that more basic information about the Fund, in a simplified style, should be disseminated. The economic issues series is a useful step in this direction. For the broad public, much can be achieved by simple means. For example, the Fund's financing mechanisms can be explained with a simple diagram rather than in a complicated description (as is the case in the fact sheet posted on the Internet). However, I find it difficult to understand why the production of such material should have significant resource implications.

Another aspect I would like to address is the volume of the information flow. In the report, the staff mentions the increasing number of publications. As Mr. Zoccali, I cannot help wondering if the publication program is not too extensive. Maybe, it would be a good idea to re-focus our efforts and we could be more effective.

A point mentioned only briefly in the staff report is the regional strategy and the language policy. From the report, and specifically the proposal at the bottom of page 17, I have the impression that EXR has some U.S. bias. There are some ideas of how to reach program countries, but nothing about the public in Western Europe. This bias is aggravated by the use of English as the predominant language in the Fund's external contacts. I do not propose that all publications are translated in all the official languages of the Fund's membership. To the contrary, I wonder if translations of material addressed to a relatively well-informed public, such as IFS, are really necessary. But I firmly believe that the basic information material, including fact sheets, should be made available in the main languages of the Fund's membership. I would be interested to learn more about the EXR's policy with respect to these issues.

The last issue I would like to address is the lack of candor. I think this is the point Mr. Wijnholds has treated so lucidly in the paragraph about press releases in his Gray. A journalist once told me the IMF was constantly producing cotton wool. What he meant is that in IMF public statements one always has to read between the lines. I believe that the Fund, if it wants to pass a message to those not used to this style, has to become more explicit in its assessments.

We have raised many fundamental questions today about how we should address External Communications. To think more generally about these issues I suggest that the staff prepares, within the next couple of months, another paper addressing a) the fundamental question concerning the effectiveness of the Fund's external communications and b) the different aspects of external communication mentioned above.

Let me then turn to the content of information. Of course, EXR is not alone responsible for the Fund's image in the general public. External communication can only be as good as the information allowed to pass the firewall. In this respect, the report reiterates some suggestions which have already been discussed in the Board. The proposals include the release of summing-ups, the improvement of the PINs, the requirement of a publication of PFPs and Letters of Intent, and the publication of the Board agenda. This Chair has always taken a progressive position with respect to transparency. Accordingly, I can agree to all of these proposals. I only have reservations concerning two points: First, the advance release of policy papers for the Interim Committee, since I doubt that a global embargo can be enforced. The second is the advance publication of the agenda. Earlier I have said that, as Mr. O'Donnell, I am not sure wether we serve transparency if we publish the agenda every week in advance. There are two distinct views now and I really think they are not that far away from one another in substance. The problem of unintended signaling could be avoided if we publish an agenda maybe a month in advance, to give an idea of what the Fund is working on. "Hot" issues would not be on such an agenda nor its postponements, which admittedly could cause confusion; and transparency would be served.

I would like to conclude with a brief comment on openness to criticism. The Fund has been reproached of adhering to the belief that those who understand it automatically support everything it does. Of course the Fund is not infallible. I believe more openness to constructive criticism (including more readiness to autocriticism) would help the Fund shed this reputation of being arrogant and defensive. This is probably the main challenge to the Fund's external communication policy.

Mr. Kafka made the following statement:

We would like to thank the staff in the External Relations Department. There is no doubt that in a modern and globalized world, transparency and openness are both necessary and welcome characteristics for any enterprise, institution or government. Along these lines, we applaud recent efforts of the Fund to explain its role and to disclose information in a open and transparent manner.

While we recognize that much can be done to improve external communications, we agree with those who believe that we must avoid the risk of overexpansion, but not of expansion, of the amount of information we disclose and in the audience we try to reach..

We can accept the release of summings up of Board discussions of occasional policy papers for the Interim Committee a few days ahead of the meeting, and of quarterly timetables of Article IV consultations on the Fund's website, as well as the reduction in the period governing access to information from the Fund's archives. These would all be steps in the right direction to show the willingness of the Fund to let economic agents and members of the civil society know what it is doing.

On the disclosure of country-related information, we have reservations about the usefulness of providing more information than is currently available on consultations with member countries. The confidentiality involved in the discussions should be carefully preserved, and the effect of released information on the behavior of financial markets cautiously assessed, to encourage a frank dialogue with the authorities and avoid exacerbation of market turbulence.

Having said this, we would not oppose the proposal of asking member countries to publish Letters of Intent and Policy Framework Papers, although the decision ultimately must remain with the country authorities and in some cases they might have reasons not to release them. By the same token, we believe that the release of PINs and the dissemination of data through the SDDS mechanism must continue to be voluntary decisions, taking account--inter alia--of political implications and of the differences in the ability of countries to produce timely economic information. We should add appropriate analytical information to our publications to render them more easily understandable.

Regarding the Fund's relations with the press, we concur with the need to reinforce programs of interaction with the media through briefings, seminars, conferences, and other means, with the purpose of publicizing the central role of the Fund. Nevertheless, the idea of promoting frequent contacts of mission staff with the press could be delicate, given the risk of announcing unofficial conclusions or creating controversies with the authorities.

Mr. Yao pointed out that the Fund was criticized because it was quite influential in international economic debates. Given that influence, there were many scholars and public officials that believed that they should participate in the formulation of Fund policies. How should the Fund deal with those well-intentioned individuals?

The Director of the External Relations Department said that EXR hoped to prepare a follow up paper a year from now, which would include an assessment from external consultants.

It was feasible to post non-English language papers and publications on the Fund's website, the Director continued. In fact, the French, Spanish, and German versions of the 1997

Annual report had been posted on the website. Although that was a cheaper way to disseminate information to non-English-speaking countries, it was not costless in terms of resources.

In response to Mr. Bernes' comments on lobbying, the Director noted that advocacy was not appropriate for an international institution. However, if lobbying were defined as informing the public, including parliamentarians, on a continuous basis, then he fully agreed with Mr. Bernes that greater efforts were needed in that area. The Fund tried to make as much contact as possible with civil society and parliamentarians. Those efforts, however, were not only limited to the United States. The Fund received visits from officials from many countries, and staff, management, and mission staff routinely visited other countries as well. With regard to parliamentarians in the United States, experience had shown that there had not been much interest on the part of the U.S. Congress in the activities of the Fund, unless there had been a specific Fund issue before Congress, such as the quota increase. Nevertheless, the Fund still made an effort to maintain a relationship with the U.S. Congress. Further, as pointed out by Directors, the Asian crisis has increased the interest in the activities and operations of the Fund.

In response to a question on the difference between the Newsbrief series and press releases, the Director explained that press releases had been initiated at a time when the Fund had not provided any information to the public. Therefore, press releases had been subject to a rigorous clearance procedure. Newsbriefs had evolved at a later phase, and had been designed to provide information in a relatively quick manner, such as when a head of state of a country had met with the Managing Director or when a program had been proposed to the Board. Newsbriefs had been motivated by the desire to fill an information gap or to provide information when the absence of a Newsbrief might have led to reliance on other, perhaps less dependable, sources of information.

Mr. Chelsky, noting that the distinction between press releases and Newsbriefs was not entirely clear, wondered whether there might be some scope for consolidation.

With regard to lobbying, Mr. Chelsky stressed that the Fund needed to impress upon key policymakers that the work of the Fund was important and that it was in their interest. That could be done by presenting particular information; however, that might be interpreted as seeking to influence. More generally, the Fund needed to provide information on a regular basis. Aside from the U.S. Congress' preoccupation with the quota increase, what has the Fund done to establish a relationship with key congressional staff?

Mr. Dairi cautioned that it was not wise for the Fund to interfere with the legislative process in any country. It was up to member countries to decide which decisions to adopt. At the same time, there was a role for the Fund in advocating sound policies, particularly in countries were there was no public opinion. However, if the Fund told countries to support its policies because they were in their best interest, the principle of multilateralism might be destroyed. Some countries might feel that the Fund was working for large countries or for specific interests.

Mr. Newman noted that the U.S. Congress' interest in the Fund had been growing steadily over the past 4 to 5 years. He pointed out that if the Fund waited to provide information until after the legislation was drafted, then it was too late. It was crucial to expose the legislatures to the work of the Fund when member countries were seeking to pass legislation. Not only was that true for the U.S. Congress, but for all member countries. Given that the Fund needed to seek financial resources from member countries, it was also necessary to gain support from the general public.

The Director of the External Relations Department remarked that the Fund maintained regular contacts with parliamentarians, even during periods when it was not making headlines. In the case of the U.S. Congress, there were frequent contacts between congressional staff and staff from the Fund. Management also maintained regular contact with certain people in the U.S. Congress. In addition, the Fund was in constant contact with the Bretton Woods Committee, which served as a conduit to gauge public opinion and as a vehicle to pass information. The Fund had seized on opportunities to reach a wider audience. For instance, the Managing Director had recently given an interview in USA Today, which has 2 million subscribers, and senior management had appeared on CNN and on network television. The Fund also wrote letters to NGOs and provided information to visitors groups that came to the Fund. The new Visitors' Center would contain improved facilities, such as video teleconferencing, an auditorium, and a permanent exhibit of the history of the Fund. The paper had not presented detailed information about EXR's ongoing activities as it had had focussed on the next steps.

Mr. Dairi pointed out that if the Fund became more open and better known, then it would no longer need to target specific constituencies.

The Acting Chairman agreed with Mr. Dairi, but noted that such an effort would take time to implement.

Mr. Milleron questioned whether the Fund should target specific constituencies to explain what the Fund was doing.

The Acting Chairman felt that it was the responsibility of the authorities to explain what the Fund was doing, especially in program countries. Although the Fund needed to defend itself, member countries should also do the same. He recalled that when he had been Director of the African Department, he had routinely declined speaking invitations from parliaments, NGOs, and labor unions. He was pleased that the Fund was more open in that regard.

Mr. Newman pointed out that the more information the Fund provided to countries, the greater impact it would have on gaining support for its policies.

The Director of the External Relations Department clarified that the Fund not only worked with the U.S. Congress on communications issues, it also worked with the U.S. Executive Director's office. In addition, the Managing Director, as well as the Deputy Managing Directors, had met informally with the U.S. Congress to explain Fund policies.

Regarding the Morning Press, the Director said that EXR was working on producing an electronic version that would be available earlier in the day. The World Bank's Development News was circulated earlier in the day because the Bank has much larger resources than the Fund. The staff from EXR came in at 5:00 a.m. to prepare the Morning Press.

Mr. O'Donnell believed that any press office needed to be staffed 24 hours a day, and stated that many institutions had already contracted out the production of press summaries. He wondered whether the Fund and the Bank could collaborate in the production of such summaries.

Mr. Zoccali felt that news should be covered 24 hours a day, especially given the new technologies.

Mr. Dairi added remarked that a press summary was useless if it was received after 8:30 in the morning. He urged EXR to change the way it processed the Morning Press to make it available earlier.

The Director of the External Relations Department reported that there were a number of new initiatives planned for the Fund's website. One of them was a list server, which would allow users to sign up for e-mail delivery or notification of Fund material. That facility was expected to be operational at the time of the fall Annual Meetings. Other enhancements to the website were improving search capabilities and allowing users to order publications on-line.

The Fund's transparency was ultimately influenced by members' transparency, the Director continued. In that spirit, the paper had suggested the idea of involving Directors in external relations work. Perhaps it would have been better if the paper had highlighted the importance of involving national authorities more in defending and explaining the Fund as a way to supplement the work of Directors.

EXR has 21 professional staff working on information and public affairs, the Director remarked. Eight people worked on press relations, 8 people worked on public affairs, and 5 people worked on the news response unit, which was in the process of being set up. About 18 staff worked on editing and publishing. The staff that worked with the press had experience and training in journalism. Those who worked in the public affairs section had legislative and legal experience, two of whom with experience in the U.S. Congress. The staff in the editing and publishing area had experience in managing public communications programs and in the publications process.

In response to Mr. Yao's question on involving outside groups in formulating Fund policies, the Director referred to a meeting that several Directors, as well as some staff, had attended with the Washington-based Center for Concern on how the Fund could be made more transparent. Also, the Report of the External Evaluation of the ESAF, in its conclusions, had included several ideas which had been brought up by outside groups. However, the Fund had not established committees for collaboration with NGOs, as the Bank had done. The Fund's relationship with NGOs was different, and, consequently, the Fund was not intending to follow the Bank's approach.

The Acting Chairman made the following summing up:

> Executive Directors welcomed the opportunity to review the Fund's current approach to external communications and to discuss the next steps to improve the Fund's communications strategy. The discussion was particularly timely, given the significant public interest in the activities of the Fund in recent months. Directors noted that the discussion today should be seen as part of an ongoing effort to further strengthen communications. This would entail providing more information to diverse target audiences, extending the reach of our communications, and engaging our critics more effectively. To that end, Directors endorsed the overall strategy for the Fund to be more proactive in communicating its message. They noted that this is a long-term, multi-level exercise, with greater involvement on the part of the staff, management, the Executive Board, and country authorities. In addition, several Directors noted that we must strive to ensure that greater transparency does not come at the expense of less candor in our dialogue with members. Also, preserving and enhancing the credibility of the Fund was seen as

the most important objective of our strategy. In that context, it is important that press and news briefings set a balanced tone. Moreover, external relations must be a genuine dialogue, and the Fund should be open to suggestions and criticisms by informed parties outside the Fund, and take into account such feedback in our policy discussions.

In discussing possible next steps, Directors generally welcomed the initiatives suggested by the staff. On the specific suggestions by the staff, they expressed a range of views:

- Directors noted that Press Information Notices (PINs) had been a useful tool for conveying the Fund's views at the conclusion of Article IV consultations, and some considered that this practice could usefully be extended to program discussions. However, Directors also noted that the experience with PINs is to be reviewed, and we will return to a fuller discussion in the coming weeks in the context of the discussion on transparency and surveillance.

- Directors also generally favored encouraging members to release Letters of Intent and Policy Framework Papers. Several countries are already publishing these, and it would be desirable if more countries were to do so. We will be returning to this issue as well when we discuss the paper on transparency and surveillance.

- While Directors generally considered that it would be useful to release the summings up of key policy discussions to the public in a timely manner following the Board discussion, some emphasized that the Board should consider publication of these on a case-by-case basis, including taking into account whether a discussion is ongoing or final. There was also support for the suggestion that this could be supplemented with the release of executive summaries of staff papers.

- In order to increase the transparency of the Fund's work program, some Directors saw merit in the proposal to release one week in advance the tentative schedule of Board meetings and to release on a quarterly basis the advance schedule of Board discussions of Article IV consultations. Most others, however, noted the tentative nature of the Board schedule and possible changes, and felt that these changes may not be correctly perceived by markets. There was broad support for providing ex post on a regular basis press briefings on the activities of the Board. There was also broad support for releasing the six-monthly work program of the Board, a matter on which we will come back to the Board.

- Some Directors favored releasing in advance the Interim Committee documents as another step in providing more information, while noting the practical constraints arising from the fact that these documents are often produced under tight deadlines. An alternative idea that was supported by several Directors, and which we can explore with the Interim Committee, would be to publish the Interim Committee documents immediately after the meeting occurs. There was also a suggestion to preview for the public in a general manner the items on the Interim Committee's agenda.

- On access to the Fund's archives, Directors generally considered that it would be useful to review the policy regarding access to Fund archives, with a view to considerably reducing the 30-year period governing access. A Board paper reviewing the experience with the opening of the Fund's archives will be issued in the near future.

In addition to the above, Directors broadly endorsed the other proposals to increase media contact. Some noted that greater interaction between the staff—mission chiefs and resident representatives—and the media was important. These staff members could play a useful role in explaining Fund-supported programs. Others, however, believed that we should exercise caution and should ensure that the staff is well trained to handle the media effectively. The participation by the authorities in these media contacts should be left to the authorities to decide. There was also support for broadening the contacts between Executive Directors and the media, and the public at large, in order to help clarify the Fund's role. At the same time, other Directors emphasized that we must ensure that the Fund conveys a consistent message and that broad guidelines be established for such contacts.

Directors agreed with the staff that there were other avenues that are currently being used, and which could be further developed as part of the strategy to improve and broaden the Fund's communication. One avenue could be expanding the program of seminars with outside participants, including representatives of the media, which had been held in recent years and had generated considerable outside interest. Another avenue was to enhance the Fund's website to provide more information on member countries. We are already doing that in the context of the Dissemination Standards Bulletin Board, and we will continue to do more in this area.

We also take note of other suggestions, such as the release of staff reports for Article IV consultations, the Fund's financial statements, the Fund's liquidity position and operational budget, and the administrative budget, to which we will return in the proper context.

There was considerable support for expanding the Fund's outreach program to include members of the public as well as representatives of civil society, using not only headquarters-based staff, but also resident representatives; providing more basic information about the Fund to nontechnical audiences and in local languages; and contributing in various ways to greater ownership of economic reform programs by governments and the public generally.

This has been a useful and productive discussion, which has underlined, once again, the importance of a sound and carefully-considered external communications strategy for the Fund. In the course of the next few months, we shall be implementing those measures that do not require further consideration, and would return to others soon, provided that staff resources are available. I noted the view of several Directors that it would be most useful to obtain further insights into the effectiveness of the Fund's external communications and the Fund's image on the basis of outside advice. The staff will prepare a brief report early next year reviewing the initial experience with implementation of the steps discussed today, supplemented by the work of external consultants. Although at today's discussion a few Executive Directors have called for a much more ambitious external communications strategy—I note in this regard the proposals to better integrate the Fund's operations with communications and to consider appointing a spokesperson—I believe most Directors would like to reflect further on this important aspect. I would hope that the staff paper to be prepared next year will provide a basis for considering the feasibility, usefulness, and resource implications of more ambitious external communication objectives in the future.

Mr. Chelsky suggested that, rather than publishing the six-month work program, which was subject to considerable revision, it might be preferable to publish the Board schedule one month in advance. Volatile items were unlikely to appear on the agenda because it would not be possible, in most cases, to know a month in advance whether they would take place.

The Acting Chairman said that there was not enough support in the Board for the publication of the Board agenda. Although the idea of publishing the work program had broader support, some speakers felt that the current version of the work program was not helpful and should not be published.

The Director of the External Relations Department said that he was in favor of publishing information pertaining to the Fund's financial structure and operations, as suggested by Mr. Newman. However, it had not yet been determined whether it would be feasible to publish that information.

The external consultants had already started to work on the effectiveness of the Fund's external relations activities, the Director continued. In light of the ideas presented at today's meeting, perhaps the consultants could look into some of the suggestions. With regard to the timing, the results from the evaluation would not be available before the end of 1998.

Mr. Taylor favored publishing a version of the work program relatively soon.

The Director of the External Relations Department pointed out that it was up to the Secretary's Department to transform the work program into a more palatable version. EXR could certainly help in publishing that document.

The Acting Secretary said that the next work program could be written in a way that was more easily published.

The Acting Chairman suggested that the Board come back to the issue of the proper form of the work program.

The Director of the External Relations Department saw merit in the suggestion to hold regular press briefings on the work of the Board. He cautioned, however, on establishing a regular schedule for those press briefs; the frequency should be guided by the degree of interest in the work of the Fund.

Mr. Sivaraman thought that it would be useful to hold press briefings every three months. If there was not enough interest, a handout could be provided on what the Board had covered over the previous period.

Mr. Dairi wondered whether today's summing up would be published, and suggested that the summing up be circulated to Directors for approval.

The Acting Chairman said that he would reflect on Mr. Dairi's suggestion. He clarified that the proper procedure was for the Board to adopt the summing today, and that the decision to publish it could be made at a later date.

## 2. REPUBLIC OF CROATIA—1998 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1998 Article IV consultation with the Republic of Croatia (SM/98/149, 6/19/98). They also had before them a background paper on selected issues in the Republic of Croatia and statistical appendix (SM/98/158, 6/26/98).

Mr. Wijnholds made the following statement:

> The Croatian authorities welcome the opportunity this Article IV consultation provides for continuing their close dialogue with the Fund. The advice of the Fund staff has always been highly valued by the authorities and many of the policy actions undertaken by them have benefitted greatly from the Fund's assistance. While appreciating the staff's candid appraisal of the state of the Croatian economy, the authorities feel that some of the pronouncements appear to overdramatize the actual situation. They recognize that certain risks exist in the present situation, but have been moving swiftly to address the main problem areas. Both their past track record as regards adjustment policies and recent conversations that I had with the authorities indicate their willingness to take additional measures if needed to restore equilibrium in the economy.
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> As indicated in the staff report, real GDP has continued to grow at a strong pace of 6.5 percent throughout 1997. On the basis of available information, the authorities expect this favorable trend to continue through 1998, with the growth rate of real GDP being in the range of 6 to 7 percent. As was the case in 1997, tourism is expected to grow above the average rate for the economy; this year too, i.e., at a rate of 10 to 15 percent.
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> Prices remain relatively stable: the CPI increased by 3.8 percent in December 1997 relative to December 1996, compared with a target range of 2 to 4 percent for the year as a whole. The PPI showed an even smaller increase of only 1.6 percent in 1997. Price developments in 1998 have so far followed this trend, although the CPI has been affected by introduction of the VAT at the beginning of 1998. Including the data for June 1998, the CPI increased by 5.7 percent over the first half of 1997. Meanwhile, the PPI has decreased 0.4 percent relative to the first half of 1997. The authorities view these price developments as favorable and intend to continue policies aimed at maintaining price stability and high economic growth.
>
> The Croatian authorities have learnt to appreciate the crucial importance of fiscal restraint, as can be evidenced by the success of their home-grown

stabilization program initiated in October 1993. The fiscal stance will therefore remain cautious and the aim is to achieve a balanced budget of the consolidated central government for 1998.

The increase in the budgetary revenues on account of the introduction of the VAT has been above expectations. The VAT revenues are now expected to be around 34 percent higher than previously projected. As envisaged during the previous year Article IV consultation, the VAT scheme brought about a major simplification of tax payments and collections and broadened the tax base significantly. The single rate and the very small number of exemptions have made the VAT as non-distortionary and broadly-based as possible.

These developments have provided some room for altering the budget of the central government for 1998. The revenues were revised upwards by around 20 percent, while expenditures were revised to increase by around 14 percent. Therefore, the amount of external debt that was previously planned to be assumed by the authorities during 1998 will be decreased by 30 percent.

The authorities plan to increase transfers to the health and pension funds, and raise spending on education, in an effort to invest more in human capital and preserve social cohesion and the standard of living of retirees. However, further increases in social expenditure cannot be brought about by further increases in the overall tax burden but rather by streamlining and prioritizing expenditure so that it better reflects demographic and structural conditions of the Croatian economy. At the same time, the authorities intend to ease the tax burden on employers by assuming part of the contributions that employees are obliged to pay to the health and pension funds.

The Croatian National Bank (CNB) remains committed to preserving price stability and has targeted an inflation rate of 2-4 percent for 1998, adjusted for the effects of the introduction of VAT. From September 1997 onwards, the CNB has significantly tightened the monetary stance compared to the first three quarters of 1997, and has implemented a series of measures aimed at slowing down the growth of monetary aggregates.

The current exchange rate regime has served the authorities well and they do not foresee any significant changes in its functioning. The CNB will continue to allow the kuna to fluctuate within a narrow margin, consistent with its regime of managed floating, while it will stand ready to intervene in the foreign exchange market and to further tighten monetary policy in order to preserve exchange rate stability.

Following unexpected shifts in several determinants of the demand for foreign goods and services over the course of 1997, the current account deficit increased to a level well above what had been expected by the authorities. However, it needs to be pointed out that an important part of this deterioration is due to one-off factors, particularly changes in import demand due to expectations preceding the VAT introduction and certain import duty exemptions granted to war veterans. Therefore a sizeable reduction in the current deficit is expected over the course of 1998, and to some extent we have already begun to see a favorable change in the dynamics of commodity trade. The deficit is expected to descend to a level of 6 to 7 percent of GDP by year-end, and to continue coming down further in the medium term.

The Croatian authorities are cognizant of the need to maintain competitiveness in international markets. In their view improvements in competitiveness need to be brought about primarily by a deepening of structural reforms - particularly through a continuing privatization of government enterprises, by a further liberalization of commodity trade and by further institutional changes that will bring an increase in the level of FDI in the Croatian economy. The Croatian efforts aimed at acceding to the WTO and adjusting legislation in order to allow for the above-mentioned processes to take place may be noted in this connection. The latest data indicate a decrease in the deficit of commodity trade due to a faster growth of exports than of imports. Commodity exports have grown by 9.2 percent in the kuna terms during the first five months of 1998 compared with the same period of 1997, while imports have grown by 4.7 percent.

Additionally, in order to slow down the expansion of imports financed by assuming foreign debt, the authorities have introduced temporary measures aimed at targeting an expansion in short-term foreign indebtedness and essentially slowing down the foreign inflows. These measures are similar in nature to those introduced earlier by Chile to curb short-term capital inflows.

Although there has been significant progress in various areas of structural reforms, the focus has lately been particularly on the area of banking supervision and prudential control, following the need to rehabilitate Dubrovacka Banka that became apparent at the beginning of April 1998, but also owing to developments elsewhere in the world. The authorities moved quickly to resolve the situation concerning Dubrovacka Banka and to prevent contagion within the economy. The rehabilitation process is well under way and the public has been informed about the progress. The CNB has initiated changes of the banking law which has just recently entered into a Parliamentary procedure, and has undertaken numerous other measures to strengthen its supervision of the financial sector, which already was an ongoing process. Among other measures, in April 1998, the CNB chartered two reputed foreign auditors to additionally examine the financial records of a sample of twelve commercial banks, and the final audit report will be filed with the CNB by September 1998. The findings of the audits will be used for undertaking targeted and tailor-made supervisory measures during the fall of 1998. The CNB intends to continue this audit program in the next four years by commissioning the audits of 12 banks to foreign auditors each year. In order to increase confidence in the banking system, the Croatian Ministry of Finance has increased significantly the amount of deposits of natural persons that are insured via a deposit protection scheme. Approximately 90 percent of these deposits are now encompassed by the scheme.

The authorities wish to acknowledge the valuable assistance of the Fund's staff whose help has been indispensable in assessing the situation and in proposing the appropriate measures to be taken in the field of banking supervision and prudential control, and particularly in drafting the new banking law.

The authorities have recently announced a list of companies that are to be privatized through a voucher scheme, and the process of bidding through private investment funds is already well under way. It is expected that the final round of bidding (the third round) will take place by end-August 1998. Concerning the privatization of large state-owned enterprises, the Croatian Parliament is currently discussing a law on divestiture of Croatian Post and Telecom into two separate entities.

The overhaul of the existing pension system has also reached the stage where the proposed changes are being discussed by the Croatian Parliament. The legislation has undergone the third reading by the Parliament committees and it is scheduled to be passed soon.

The authorities remain committed to meeting all the requirements under the SDDS by the prescribed deadlines. The most recent changes are indicative of such an orientation. Almost all statistics-producing governmental and non-governmental agencies have posted their data on web sites. The Fund's assistance is highly appreciated in this area. Numerous missions of both Statistics and FAD have helped to improve the quality of these publications and further improve the existing procedures in their compilation.

While the staff is understandably cautious in its formulations as regards the authorities' decision not to draw under the resources available under Croatia's EFF program with the Fund (para. 4), the present wording could be misinterpreted.

The staff's comparison of Croatia's military expenditure with the average for OECD countries (para. 23) appears to be a little strained under present circumstances. A better formulation would have been: 'In view of the continuing regional political tensions, it is to be welcomed that Croatia's defense spending as a percentage of GDP has continued to decline, albeit gradually.'

Extending his remarks, Mr. Wijnholds said he wished to give the reason for Croatia's decision not to draw under the EFF after the initial purchase. Strong international pressure had been exerted to block all loans by international financial institutions to Croatia, as well as to cease disbursements under the ongoing agreement with the Fund, for thinly disguised political reasons. The precedent created by attempts to effectively immobilize an ongoing loan agreement under which all conditions had been met had turned out to be detrimental for the Fund and for Croatia.

Under the circumstances, Croatia had decided not to press the matter, and had refrained from further drawings under the EFF, Mr. Wijnholds continued. With that, the framework for economic policy provided by the EFF had been weakened, as had been the position of the reform-minded segment of the authorities. He hoped that some lessons would be drawn from that unfortunate experience.

In the very frank staff appraisal, a clear warning had been sounded, Mr. Wijnholds noted. While he had always supported candor in such assessments, he could not help but worry that explicit pronouncements concerning a possible large exchange rate correction could be quite damaging if they were seen by market participants. A recent withdrawal of the staff report for the Article IV consultation with Jamaica might serve to illustrate that point. While he would not not wish to ask for similar action with regard to the report for Croatia, he would emphasize that such highly market-sensitive information would have to be removed from any PIN. In fact, the authorities, in principle, favored the publication of a PIN.

Mr. Jonáš made the following statement:

> I would like first to congratulate the staff for an interesting report. I found particular*ly* interesting the comparison of Croatia's trade and competitiveness indicators with other transition countries.
>
> This year's staff appraisal represents a sharp turnaround from previous reports. In the 1997 reports, the staff had seen some possible risks, but I was confident the authorities would take adequate measures. Now that some of these foreseen risk*s* have materialized, particularly the worsening of the current account, the staff seem*s* to be less confident oft the authorities' readiness to take the necessary steps to prevent a further deterioration of the situation.
>
> I am particularly concerned about the external development. The current account deficit has become clearly unsustainable, and the appreciating kuna seems to be harming Croatia's exports. The increase in the external imbalance presents a serious risk to the sustainability of economic growth and financial stability. However, I was missing in the staff report a more clear view of Croatia's competitiveness despite an interesting background analysis on exports performance. I also missed staff's view on the desirability of continuing to use the exchange rate as a nominal anchor, particularly in view of the identified weak policy that could make this anchor vulnerable. The staff noted that on the basis of the CPI based real exchange rate, there was little evidence of a recent deterioration in competitiveness. But the CPI based real exchange rate could be a poor indicator of competitiveness. A better indicator of competitiveness, unit labor costs, have increased by 70 percent during the past four years. making Croatia's wages, as measured in deutsche mark, among the highest in the transition countries.
>
> This would suggest that Croatia's competitiveness has deteriorated more than the CPI based real exchange rate would indicate. In view of the large current account deficit and weak export performance, I would have expected a stronger message in the staff report about the risk of such developments.
>
> At the core of Croatia's problems seems to be the state's excessive interference with the economy. The behavior of the state, and also some privatized enterprises, may be blamed for the deteriorating macroeconomic situation.
>
> Even though the financial situation of these enterprises was deteriorating, they nevertheless granted wage increases in 1997 that exceeded the agreed limits threefold. This is regrettable not only because it has undermined the financial soundness of these companies, but also because it sets a bad example for the rest of the economy.
>
> The situation in the banking sector also deserves careful monitoring. While the data provided by the banks shows that capital adequacy is high and the ratio of non-performing loans relatively low and stable, past experience with central banks' verification of this data would suggest that they may be understating the riskiness

of bank assets. There are some developments in the Croatia banking sector that could produce potential problems in the future.

First, there are a large number of banks with small market shares and high operating costs that may not survive stronger competition. It is important that their eventual closure not threaten the stability of the entire banking sector. Second, some banks attract deposits by offering high deposit rates, a common behavior of banks in risk. Third, the lending activity of the balance sheets is expanding rapidly, this often signals maturity deterioration of assets when banks are unable to identify the liabilities.

This concerns in particularly a small group of banks. Given the uncertainties of the situation in banking sector, I welcome the authorities' decision to commission an audit of 12 banks. I would like for the staff to inform the Board on the outcome of this audit, perhaps during a session on country matters.

The staff recommends reducing the current account deficit through implementation of a more restrictive fiscal policy despite the fact that the too lax fiscal policy does not appear to be part of the external problem. We have discussed several times in the Board the role of fiscal adjustment in a situation where loose fiscal policy is not the clear reason for a deterioration of the current account deficit. In my view, if the necessary adjustment of the saving investment balance cannot be produced sufficiently quickly and to the required extent by the private sector, it has to come from the public sector, regardless of whether there is strong pressure to ensure fiscal balance. In the case of Croatia, the fiscal balance weakened most notably in 1997, and the private sector saving investment balance is not foreseen to improve much in 1998. It is therefore appropriate to demand that fiscal policy contribute more to the external adjustment. It is unfortunate that the authorities did not use the opportunity to improve the public savings investment balance that was provided by the unexpected buoyancy of value-added tax revenues.

Having said that, I also recognize that in the long term, the solution should be to attack directly the growing external imbalance at its roots. It is mainly weak corporate governance and excessive wage growth that have been feeding excessive demand growth. The seeming lack of hard budget constraints in state-owned enterprises and their ability to borrow abroad in order to finance current spending is a recipe for problems. I agree that placing limits on total borrowing by public enterprises could help strengthen financial discipline, but a preferable solution would be to privatize these enterprises and address corporate governance weaknesses stemming from excessive insider control in some of the privatized enterprises.

In concluding, let me express my concern about the apparent unwillingness of the authorities to take convincing policy actions and about the lack of focus on needed policy adjustment. Such an attitude would only increase the likelihood of serious disruptions in the future. However, I also take note of Mr. Wijnholds's assurance that the authorities recognize the risk and are taking swift actions to restore equilibrium in the economy.

Mr. Toribio made the following statement:

The diagnosis about Croatia's economic illness seems to be very clear, according to the staff's paper on the last Article IV Consultation. Given the international circumstances, Croatia looks like a candidate to crisis contagion, after several years of current account deficit, which worsened significantly along 1997. This would be very unfortunate because Croatia had been in the past a model for other transition economies since its stabilization program of 1993. A financial crisis in Croatia could, therefore, affect markets' confidence in the whole region. It is, thus, important, even from a systemic point of view, that Croatian authorities take quick action to balance the country's economy and to finish the process of structural reforms they started years ago.

Perhaps the single most important economic factor for Croatia is a political one. In fact, Croatia needs, above all, to restore normal international relations, for two main economic reasons. First, the country has an obvious potential for tourism, which is being restraint by the political instability affecting the region. In normal circumstances, tourist receipts would have covered a very large portion of the Croatian trade imbalance so that, in current account terms, the country should not show major disequilibria. In fact, we would not be talking today about Croatia as a problem if tourism proceeds were at a normal level. Second, the Croatian authorities need to normalize international relations to turn their main attention toward domestic economic policies.

Unfortunately, there is not much we can do from this Board to encourage the normalization of political relations (it is not our mission), but we should not forget that Croatia's current economic problems are, in large measure, due to those exceptional political circumstances which, let us hope, change for the better in the medium term. We are, thus, dealing with an economy which is full of possibilities.

Meanwhile, the staff's recommendations constitute the only sensible economic policy framework and my proposal would be for this Board to support most of them. There are, nevertheless, a few points that merit, perhaps, some discussion.

The first one could be the appropriateness of keeping the exchange rate of the kuna as a nominal anchor under the present circumstances. That strategy has served well the purposes of the Croatian authorities in the past and its removal now could certainly have serious consequences, given the high exposure of the government and of non-bank private sectors to foreign-currency-indexed debt. Yet, keeping a fixed exchange rate when the current account deficit reaches 9 percent of GDP constitutes an invitation to speculative attacks which the Central Bank may not be able to resist. This is a very delicate point but we should not refrain from considering it in our discussion today, and I invite the staff to express their opinions.

With or without an exchange rate correction, the Croatian authorities will need to apply--as the staff point out--a balanced policy package to provide credible evidence about their commitment to a sustainable adjustment path.

Contrary to the staff's view, the main emphasis of the policy framework should--in my opinion--be placed on monetary policy and, in particular, on the measures needed to correct the exaggerated growth of the main monetary aggregates, including broad money and credit to the private sector. That seems to be the basic element for the current account imbalance. To make the monetary correction effective, a deep reform of the banking system should, of course, be undertaken, along the lines suggested by the staff and whatever the short-term costs of such a program. Experience shows that protracted reform actions end up by generating higher costs in the medium term, when no room for flexibility exists. The appropriate time for an effective action on the banking system is now.

Despite its growth in 1997, the deficit of the consolidated central government operations does not seem to be excessively high in terms of GDP. Furthermore, staff projections for the whole 1998, on accrual basis, reduce the imbalance to 1.6 percent of GDP with a substantial contractionary effect on the economy. These figures would hardly justify a strong fiscal adjustment. I wonder, however, what the expected budgetary impact of a complete bank sector restructuring would be and which kind of budgetary adjustments would be needed to accommodate the corresponding expenditures. Perhaps the staff could make some comments on this point.

Finally, the staff recommendations with respect to the structural reforms of the state-owned enterprises and their eventual privatization seem very appropriate, given the high impact of their imbalances on the domestic saving-investment gap and, therefore, on the current account deficit. Such a privatization program seems to be long overdue, although I would not be too optimistic about its practical possibilities now, given the worsening of Croatia's rating in international financial markets.

I, nevertheless, wish the Croatian authorities full success in their future endeavors.

Mr. Wijnholds noted that Croatia did not have a fixed exchange rate regime, but in fact followed a narrow managed float, and had allowed the exchange rate to depreciate somewhat. It was true that the economic problem might be mainly political, but a country could do little about its proximity to a very volatile region. In that light, Croatia's credit rating was not unfavorable compared to those of other countries in the region.

Mr. Sobel made the following statement:

Croatia has been tremendously successful in promoting macroeconomic stabilization since 1993. This is well borne out by the indicators for Central European countries in Table 1. Croatia also offers one of history's most fascinating examples of a rapid stabilization after a hyper-inflation. This record is appropriately a badge of honor for the authorities.

But Croatia cannot rest on its laurels. Indeed, the excellent staff report suggests that Croatia may face stormy weather unless it acts quickly to intensify reform. This point is underscored by the large external deficit and some vulnerability indicators, including modest export growth. The presentation of the vulnerability indicators was appreciated and should be replicated often in the staff's work.

Why is such a successful emerging market performer facing these circumstances? Usually, we delve into our macroeconomic tool kit for the answer; and, fiscal policy is our first stop. Indeed, fiscal policy was expansive last year. Even though the deficit is poised to contract sharply this year, the staff suggest fiscal policy may move back toward laxity under the passive scenario. Surely this would constitute movement in the wrong direction.

But like others in Central Europe in recent years, the main culprit behind the widening external deficit is not macro policy, but insufficient progress on structural reform, particularly enterprise and financial reform. Like Mr. Jonas, I believe fiscal policy can cushion the needed adjustment in the economy, but a frontal attack on Croatia's structural deficiencies, supported by fiscal adjustment, would be the best course. The staff recognize this point and hence emphasize microeconomic issues more heavily than most staff papers for this region. This focus is welcome, and I found Appendix IV and V and the first selected issues paper invaluable.

On the state owned enterprises, the staff describe how soft budget constraints, financed by foreign and domestic borrowing, are allowing firms to pay large wage increases, keep surplus labor on the rolls, and make unsound investments, regardless of modest productivity growth and weak profitability. The wage gains in particular are fueling strong growth in consumption and imports. The effort to impose incomes policies is welcome, but does not appear to suffice. Hardening of firms' budget constraints and curbing wage growth and borrowing could improve enterprise performance and should be pursued immediately. But governments are not able to restructure firms more efficiently than the private sector and I thus agree with the staff that the delays in privatization are impairing corporate governance. This is not to say that privatization guarantees good governance or that there is one optimal way of privatizing. But the authorities would be well-advised to accelerate their efforts on privatization in ways that promote corporate governance. In this regard, they should strengthen their efforts to build strong capital markets in which outsiders can acquire major stakes and corresponding shareholder rights. What is concerning is that in Table 6, next to almost every measure involving "privatization," the adjacent box has terms such as "not met" or "delayed."

On the banking front, the Croatian strategy appears sound. The legal environment for supervision and prudential control hits the right points. But it appears that relations between well connected individuals, enterprise owners and banks have translated into inadequate compliance. Supervisory data is weak. Too many small private banks exist due to low minimum capital requirements. In the case of Dubrovacka Bank, the authorities put a private bank into the rehabilitation process designed for state banks. Despite the bank rehabilitation agency's efforts, privatization of large state-owned banks, accounting for a major portion of the financial system's assets, has lagged. The authorities must strengthen supervision and control. But they should also impart renewed vigor on bank privatization for the large state banks. It is one thing to address the stock of NPLs through recapitalization, but without bank privatization that draws on strategic investors, large NPL problems will recur. Poland, with the help of the Polish Bank

Privatization Fund, and Hungary have made important gains in recent years and bear out this point. The IMF should not neglect to focus strongly on bank privatization as it carries out its work on supervision and prudential control.

The glaring exception to the high quality of the staff report is a mistaken and gratuitous suggestion in paragraph 6 that strains between Croatia and the international community undermined and led to reversal of Croatia's reform progress and I cannot accept Mr. Wijnholds' remarks regarding "thinly disguised" political motives. Since he and the staff have led us into this debate, let me be clear: it has been and remains the position of this chair that full cooperation with, and implementation of, the spirit and letter of the Dayton Accords is essential for the viability and sustainability of Croatia's reform effort and its successful integration into the world economy. But on the structural front, problems of weak corporate governance, delayed privatization, inadequate bank supervision, and limited gains on bank privatization for large state banks are home-grown factors that have been with Croatia for some time and well predate the "strains." Indeed, they appear to have an ongoing and common root -- close relationships between the state and connected individuals which impede the structural vibrancy of Croatian reform. And on macro policy, it is unclear to me how this year's tightening of the fiscal and monetary stance squares with the staff's observation.

In conclusion, let me pose a few questions. Does the staff share the concerns that close relations between the state and well connected individuals impede reform and pose a challenge for good governance? In paragraph 14 and elsewhere, the staff note that borrowings by state firms were taken without explicit government guarantees, but other remarks leave the impression there may be a perceived "implicit" guarantee. Is there a de facto guarantee? On Dubrovacka Bank, the staff tantalize us by a description of rife interconnected lending and by references to the authorities treating the bank exceptionally. Could the staff tell us why the authorities view the bank as so special and describe the asset side of the banks' book? Part of the process of reviving Croatian trade involves opening up trade not only with the EU but with Croatia's neighbors; could the staff tell us about Croatia's trade relations and border policies with its immediate neighbors?

Mr. Karunasena made the following statement:

Strong economic growth with moderate inflation in Croatia continued in 1997 while progress was made in some areas of structural reforms. However, the expansionary fiscal policy, high wage increases, laxity in monetary policy, and poor performance in estate enterprises accelerated the domestic credit expansion, and increased the external current account deficit to an unsustainable high level, augmenting the country's external debt. Meanwhile, weaknesses emerged in the banking sector and markets signaled the necessity of corrective measures. It is encouraging that the authorities have already taken some corrective measures to improve the macroeconomic stability and accelerate the implementation of structural reforms. With a moderate export growth economic growth was led by a strong domestic demand in 1997. Large wage increases, a cut in personal income tax and high credit growth accelerated the expansion in domestic demand. Despite sharp increases in wage cost and a strong domestic demand, inflation remained at a moderate level of below 4 percent, mainly due to the nominal exchange rate anchor policy. Nevertheless these cost-push factors may reflect pressure on domestic prices in 1998; already the price increases reached 6 percent in second quarter of 1998.

In the fiscal front, the overall budget deficit increased in 1997 reflecting both an increase in expenditure and a reduction in revenue. Increases in subsidies, transfer payments and interest cost were the major contributors in expenditure side. The revenue shortfall was largely accounted by the recent cut in income tax. Despite a surge in imports the tax revenue collection from international trade recorded only a marginal improvement. This could be due to increases in duty waivers or some changes in the tariff. Staff's comments on this matter would be appreciated. It seems that the deficit will be lower in 1998 than expected due to an improvement in the revenue collection under VAT. However, a large part of the windfall gain under the VAT system has been allocated to finance some additional expenditure items, missing an opportunity to reduce the budget deficit below 1 percent of GDP. Nevertheless the authorities have indicated the balanced budget as their primary objective in the fiscal front.

Monetary expansion remained high mainly due to a strong credit demand in the private sector and estate enterprises. Private sector credit expanded by 42 percent, the majority of which is indexed to Deutsche mark. These domestic credit developments adversely affected the external balance in two ways. First, as large part of this credit expansion was reflected in consumer credits demand for imports increased widening the current account deficit. Secondly, the commercial banks resorted to foreign borrowing to satisfy domestic credit demand raising the country's foreign debt.

It is welcomed that the authorities have already taken some corrective measures to tighten the monetary policy stance by raising the Central Bank's interest rates and discouraging foreign borrowing. Accordingly, monetary expansion is expected to decelerate in 1998 reducing the pressure on the balance of payments.

In 1997, imbalances in the external sector deteriorated. A sharp increase in imports with a moderate export growth increased the trade balance widening the current account balance to an unsustainable high level. Services account recorded an improvement largely reflecting the recovery in tourism but it was not sufficient to offset the increase in the trade balance. As the external reserve position of the country did not deteriorate, in fact it improved marginally, the impact of the current account deficit reflected largely in foreign borrowing. High wage increases with less flexible exchange rate could have deteriorated the country's external competitiveness unless there is a sharp increase in the productivity, which is very unlikely given the inefficiency in estate enterprises.

It is encouraging that the authorities are concerned about the external sector developments and have already initiated some corrective measures. In this year, the currency has been allowed to depreciate and the monetary policy stance has been tightened to reduce the pressure on the external balance.

Even though progress has been made in some structural reform areas, the structural reform program as a whole has moved slower than expected. Situation in some estate enterprises have deteriorated due to high wage increases and rising debt burden. The comparison of two alternative policy scenarios given in the paper demonstrates the necessity of strong stabilization policies with a comprehensive structural reform program to consolidate the recent economic achievements in Croatia and move the economy towards a sustainable high growth path in the medium term.

With these comments, we wish the Croatian authorities success in their efforts.

Mr. Merz made the following statement:

It is regrettable that the previous reform efforts of Croatia have lost momentum and that its cooperation with the Fund has become less close than it has been in the past. In light of this situation, it is crucial that the authorities regain the momentum of reform, with the objective of implementing a comprehensive adjustment program in line with the staff's recommendations. Such a strategy should include a tight monetary stance and sufficient improvements in corporate governance to avoid disturbances in Croatia's relations with international donors.

With regard to more specific points, we fully share the well-focused thrust of the staff appraisal. I can therefore limit my comments to the increased vulnerability of the external position of the country. As shown in Box 1 of the staff paper, a rapid deterioration of the current account deficit, also causing a strong increase in external debt, including its service, is accompanied by emerging weaknesses in the banking sector. Against this background, the response of economic policy should mainly focus on three areas.

First, the authorities should strengthen their efforts for fiscal consolidation. The medium-term scenario provided by the staff indicates that the current account deficit will persist at an unsustainable level in the absence of further fiscal consolidation. Recent measures, like the introduction of the value-added tax in early 1998 and the approval of the revised budget by parliament, are certainly welcome steps. They are, however, not sufficient to keep public finances on a sustainable path.

This assessment is underpinned by the fact that budgetary risks exist in the short and medium term. To mention only a few, the budgeted level for public wages seemed to be overly optimistic; there are uncertainties with regard to the public pension system in the absence of a comprehensive reform; there are no measures to offset the cuts in personal income tax in January 1999, which obviously have been agreed; and, finally, government expenditures stemming from banking system difficulties could be significant.

Second, structural reforms, particularly in the areas of the banking sector, state enterprises, and privatization, should be accelerated. With regard to the banking sector, a comprehensive strategy, with possible technical assistance by the

World Bank and the Fund, should be developed immediately. This would not only reduce external vulnerability, but also increase the efficiency of monetary policy.

Third, the authorities might also consider introducing some downward flexibility of the nominal exchange rate. This could help to decrease the current account deficit more quickly, to improve competitiveness, and to increase the relatively low level of foreign direct investment. I am convinced that the Croatian authorities will be able to face up to these challenges. I am also reassured by Mr. Wijnholds that they are willing to take additional measures, if necessary, to restore the equilibrium in the economy.
I wish the authorities much success.

Mr. Lushin made the following statement:

Croatia's achievements in stabilization and growth over the last five years have been impressive. The performance in 1997 was also not bad in terms of high growth, low inflation and sound exchange rate dynamics. Although I share some of the concerns expressed by the staff, especially with regard to the high current account deficit and lax monetary policies, I would agree with the position of the authorities as presented in Mr. Wijnholds' BUFF statement, that some of the staff's pronouncements tend to overdramatize the actual situation. It is difficult to agree that Croatia finds itself in very difficult economic circumstances, especially when looking at Table 1, which shows that during the last three years Croatia has evidently outperformed many other regional economies.

In analyzing the main weakness of the 1997 performance - namely the emergence of a sizable current account deficit - it is necessary to come down to its roots. The increase in the current account deficit of about $1.3 bn stems roughly from an increase in imports of equal size. In turn, if we look at Table 58 of the Statistical Appendix, we discover that the bulk of import growth (nearly $1 bn) appears within the item "machines and transport equipment". Then a question arises as to whether such an outcome was due to the increase in car imports, provoked by the pre-announced elimination of a temporary tax exemption on the import of cars. If so, this is clearly a one-off phenomenon, and, in the years ahead, one may expect the pace of imports to return to a normal level, corresponding to GDP growth. In this regard it is not quite clear why the staff in its latest estimates foresees some further growth of imports in 1998, while actually there has been a contraction of imports during the first five months of 1998. On the other hand, if it is not only car purchases that have been responsible for the surge in imports, then I would appreciate it if the staff could provide any further details.

On the other part of the balance, I would mention the important role played by tourism receipts, which continued to rebound in 1997 with an increase of almost 30 percent, and which accounted for nearly 60 percent of merchandise exports during the same year. However, Table 25 of the Statistical Appendix testifies that current tourism receipts are still strongly below their potential, as, in 1997, the number of overnight stays by foreign tourists was only 45 percent of the 1989 level. I wonder to what extent a further rapid recovery in tourism is feasible, and what assumptions concerning tourism earnings the staff incorporated in its BOP scenarios.

The fiscal performance during the current year is commendable. Of course, arrival at a balanced budget of the consolidated central government (or a deficit of 1.2 percent of GDP according to the staff's measurements) is to large extent due to the windfall from higher than projected VAT revenues, and the authorities must be aware that this is only a one-off adjustment in the volume of budget proceeds. Therefore, they should stay prepared to exercise some consolidation of expenditures along the lines suggested by the staff. However, in the given circumstances, it is not quite clear why the staff is still insisting on further fiscal tightening asserting that this is necessary to bring the external position to a sustainable level. After all, as shown in the table on page 15 of the staff report, the overall saving-investment gap of 8 percent of GDP, envisaged for 1998, comes mainly from the deficit of 6.4 percent of GDP in the enterprise and private sectors. In this regard, another staff recommendation, namely greater restraint in the public enterprises by imposing harder budget constraints and wage moderation, seems to be much more appropriate to tackle the external deficit problem than a further fiscal squeeze.

The degree of monetary laxity in the first three quarters of 1997 is worrisome, and therefore, I welcome the measures taken by the authorities last September to tighten the monetary stance. This being said, I join the staff in urging the authorities to keep monetary policy under continuous control in order to avoid any further surges in domestic credit, which would undermine budget constraints in the private sector and may lead to a deterioration in the external position. With regard to the monetary performance in Croatia, I would like to ask the staff how they can explain the fact that between 1993 and 1997 broad money rose by a factor of five, while consumer prices, if measured at year-end, have increased by only 8 percent over the same period and the exchange rate has remained broadly stable. Was this just a post-hyperinflation phenomenon or a significant increase in real money demand following the introduction of a new domestic currency in 1994?

Finally, I agree completely with the staff that the banking sector is an area of considerable concern. The CNB should move well ahead to enhance prudential regulations and to strengthen its supervision of the banking system, including through amendments to the Banking Law. As the staff rightly notes, persistent weaknesses in the banking system may well induce the population to quickly shift away from the domestic currency into D-marks and dollars, thus threatening the exchange rate anchor. Also, recent world-wide financial disturbances provide a very strong argument in favor of addressing the financial sector weaknesses expeditiously.

With these remarks I wish the authorities well.

The staff representative stated that attempting to improve competitiveness by an exchange rate depreciation from the European I Department was unlikely to generate durable effects in the circumstances of Croatia, particularly because of elements of overheating and strong aggregate demand that could be seen in the economy at present. It was likely that a depreciation would feed through quickly into increased wages and prices. Other factors that affected Croatia's competitiveness were its nonparticipation in certain regional trading arrangements, and the process of reconstruction after the recent conflicts in the former Yugoslavia. Reconstruction had diverted goods from the export market to the domestic market, which might be part of the reason for the disappointing export performance. Also, wages in deutsche mark in Croatia were the second highest of all the transition economies, and there were concerns about productivity in some sectors. The recently granted wage increases in the public enterprise sector may have had an adverse signaling effect on the economy, with negative implications for competitiveness. Wage costs in the revised budget had increased by 0.4 percent of GDP, more than had been anticipated in the original budget. It was clear that wages were a key part of the competitiveness problem, and that more would have to be done to keep them under control.

Using the exchange rate as a nominal anchor would be untenable without adjustments to deal with the passive projections for the current account deficit, the staff representative considered. Policies of adjustment would clearly be needed if the exchange rate was to be used as an anchor.

While the staff welcomed the fiscal policy adjustments the authorities had already made, amounting to about 2 percentage points of GDP, it would have preferred more of the adjustment to have come from the enterprise sector, the staff representative observed. That was especially important given the financial plans of the enterprises which showed a deterioration in their savings-investment balance in 1998. Without enterprise adjustment, all the more burden is placed on the budget as an area from where adjustment must come. On the financial front, the authorities had cut in half their credit growth. While some further tightening could be useful, there were limits on how far that could go without putting upward pressure on the exchange rate, and therefore on competitiveness and the current account, especially insufficient support was to come from fiscal policy.

Dubrovacka Banka was exposed to regional tourism, as it was reportedly majority partner in more than half of the hotels in the region, the staff representative pointed out. The hotels did not appear to be generating much income. The bank's credit risk was also quite concentrated, in particular apparently to a former dominant shareholder of the bank whose loan amount exceeded 100 percent of capital, even though those loans had been extended through about fifteen separate enterprises in which the individual was the controlling shareholder. The complicated ownership structure of both banks and enterprises made it difficult to ascertain the exact nature of the bank's claims on the individual. The financial authorities were investigating the activities of the bank. Part of the bank's deposit base comes from Bosnia, given the historical linkages and the close proximity of the country, and therefore it was likely that the bank had also extended some loans to individuals or firms from there, but the staff had no information to confirm that.

The staff remained concerned about the close and intricate interrelationships between banks and enterprises in Croatia, and about the possibility of related-party lending, the staff representative stated. The staff urged the authority to enforce the prudential regulations. The incidence of related party lending was probably greater than what could be inferred from the available statistical information.

Croatia's borders with Bosnia and the Federal Republic of Yugoslavia remained open, the staff representative reported. Bosnia and Croatia had signed an economic cooperation and free trade agreement in February 1998, which had enabled the opening up the railroad between the two countries. Only in the deep south, in the area around Dubrovnik, did the border remain closed.

There appeared to be an implicit government guarantee on some loans from international capital markets, the staff representative acknowledged, and in that respect, the staff was concerned that lenders might not be adequately evaluating loan risks.

The import projections for 1998 took into account the exceptional factors of 1997, in particular the introduction of the value-added tax and the special arrangements that had been made in 1997 to encourage the importation of automobiles, the staff representative confirmed. Subtracting the efects of these factors to arrive at a base of 1997, the balance of payments projection for 1998 assumed economic growth of five percent and a real income elasticity of import demand of one. The latter assumption might be a bit optimistic, as a more usual assumption was 1.5, so import growth could turn out to be greater than what was projected at present.

Croatia had great tourism potential, the staff representative considered. The staff projected that in the medium term, tourism would reach 80 percent of what it had been before the regional disturbances, with perhaps 15- 17 percent growth in tourism receipts for 1998.

Inflation had not increased despite the large increase in the money supply because of an increase in real money demand, the staff representative explained. Also, increases in imports had tended to relieve demand pressure on the domestic sector, keeping a lid on domestic price increases. However, service sector prices were rising faster than goods prices and the overall price level in Croatia.

While the staff was projecting a current account deficit of 9 percent of GDP, with tighter fiscal policies, the deficit might well be kept to 6-7 percent of GDP, as Mr. Wijnholds had suggested, the staff representative acknowledged. At the same time, there were also substantial downside risks, including those from slippages in wage policy, poorer than expected tourism receipts, and faster import growth, in line with the authoritites projections faster economic growth overall. The decree on wage policy foresaw wages increasing in line with inflation, which implied an increase year-on-year of 10 percent for 1998. It was likely that pressures would mount on the budget in the runup to the elections. In the staff's view, the current account deficit needed to be monitored carefully in light of those factors,but the staff's baseline indicated that the authorities needed to take stronger adjustment measures, all the more so given the downward risks and their significant adverse consequences.

Responding to a question from Mr. Toribio, the staff representative reported that the central bank maintained a managed float, and it had intervened in the foreign exchange market--to the extent of some $50-100 million--to support the currency.

Mr. Lehmussaari made the following statement:

> The discussion so far has highlighted many of the problems and concerns that Croatia is facing. I share the staff's view that there is a pressing need to address the issues in the banking sector, external sector, and the public enterprise sector. There is no doubt that the authorities must take action in order to reduce the country's vulnerability to possible shocks and crises. Having said this, I limit my comments to a few concerns regarding the banking sector in Croatia.
>
> The banking sector is in a worrisome shape. I note with uneasiness the fact mentioned in the staff supplement that several banks are facing financial difficulties. Adding this on top of the problems with the Dubrovacka banka indicates that conditions for a systemic crisis are brewing. Despite the relatively small share of these troubled banks in the overall banking market, a failure of more than one bank could easily lead to a severe banking crises.

It seems to me that Croatia is highly overbanked with some 90 banking institutions in a country with less than 5 million people. I would encourage the authorities to introduce higher equity requirements or other similar measures which would encourage bank mergers and consolidation. Furthermore, I'd like to hear the staff's opinion whether they consider the deposit insurance scheme to be adequately financed and not overly generous, considering a recent sharp increase in the amount of deposits insured by the scheme.

In the light of the poor quality of banking statistics, I note that only a couple of banks listed on the stock exchange use international auditing firms. Against this background and taking into account that the central bank seem to lack capabilities to properly supervise all members of the banking community, international auditing firms and international auditing standards should be used more widely.

I turn now to the bank lending. The staff notes that the household credit grew by a whooping 94 percent in 1997. Not only has this surge in lending caused a sharp increase in the current account deficit, but it is also deeply worrying that the majority of the credits are indexed to the Deutsche mark. Hence, the borrowing public is left highly exposed to the foreign exchange risk. More importantly, the banks themselves may be facing a high risk of personal defaults if the exchange rate depreciates.

In general, looking at the Croatian banking sector, it somewhat resembles a classical situation where domestic interest rates encourage the banks to borrow cheaper funds abroad; there is an implicit guarantee of a fixed exchange rate; private lending surges; prices of consumer goods and real estate are driven up; and the fiercely competing banks are increasingly exposed with non-performing debt in the wake of high-volume, high-risk lending. It is interesting to learn from the report that part of the lending is taking place at credit rates up to 30 percent in real terms, which leads me to think some of these borrowers have no plan to pay back these loans in the first place. All this ultimately leads to asset price bubbles and the banks are left with low-value collaterals. Against this background, I support the recent introduction of the Chilean-style measures to reduce the attractiveness of the banks' foreign borrowings.

Finally, my last concern over the banking sector is the indication of an excessive connected lending in many Croatian banks to satisfy financing needs of the shareholders. Several banks under the same ownership add more evidence to this view. Some other transition economies have lived through a similar phenomenon and were left with numerous bank closures and high financial and social costs to the population who had lost their deposits and whose public money was used for bailouts. In some of those instances, it was vested interests which had prevented the supervisory agencies, mostly the central banks, to perform their duties prudently. If this is the case in Croatia, I would urge the Croatian Central Bank to stand firm and use all powers under its control to direct the developments of the banking system to where it is meant to be.

In concluding my statement, I would further urge the authorities to follow the staff's advice for reforms in the state enterprise sector. Also I strongly support the authorities' efforts in making the privatization process more effective and transparent. Finally, I believe it would serve in the best interest of the authorities and Croatia as a whole to speed up the process of negotiations for the EU Association Agreement and CEFTA membership.

Mr. Hinata made the following statement:

It is remarkable that the Republic of Croatia has attained positive growth and subdued inflation despite very difficult economic circumstances due to strains in international political and economic situations. However, the expansion of the current account deficit is worrisome. The structural reform issues, including the privatization of state enterprises and strengthening of the banking sector, still remain and I am concerned that these may possibly worsen the economic stability. I hope the authorities will implement these structural reforms firmly.

I agree with the thrust of the staff appraisal and would like to comment very briefly on policy issues for emphasis.

On fiscal policy, while the authorities project a reduction in their 1998 budget deficit from 3.3 percent to 1.2 percent of GDP, financed in part with a windfall from higher projected VAT revenues, the budget presented several concerns such as wage expenditures and an inflexible budget allocation. In addition, the expenditure plan in the revised budget will be larger than in the original budget. In this context, I think the authorities' view might be too optimistic. It is necessary to take bold measures to restrain budget expenditures by tightening the budgetary stance, which may contribute to a reduction in the current account deficit.

On structural reform, I welcome the preparation of a new banking law, to be submitted to parliament, create a supervisory and regulatory framework for regional banks as well as the Croatian National Bank. The weaknesses in the banking sector, with the potential risks of their foreign assets and the pressure of competitiveness, should be strengthened by improving the supervision capabilities of the central bank. The foreign borrowing of public enterprises is vulnerable to external shocks such as the foreign exchange, and I am also concerned that the expansion of borrowing may weaken market confidence as well as exacerbate risks in the economy. I agree with the staff recommendations to impose limits on foreign borrowing and to monitor both borrowing and investment plans.

On monetary and foreign exchange policy, I welcome the authorities intention to maintain their tight monetary stance which could help reduce the current account deficit, and allow for a flexible foreign exchange policy.

Ms. Vigliotti made the following statement:

I would like to limit my comments to the current account position. The evaluation of the current account position of a small, open economy cannot avoid the issue of sustainability of the external debt. The current level of Croatia's external debt is not high, especially when compared to that of other countries in the region, however, under the assumption of unchanged policies, the medium-term estimates by the staff show a rapidly deteriorating situation. With the foreign liabilities building up, the problem for policy makers is to ensure that the economy generates sufficient resources to service the external debt. For this purpose, the current account position must be appraised together with such factors as the growth prospects of the economy, its vulnerability to external shocks, the health of its financial system, and exports performance. Croatia's growth prospects, while good, may be impaired by the lack of firm and effective implementation of bold structural reforms. According to the staff estimates underlying the two medium-term scenarios presented in the report, GDP growth rates seem to fall short of the last recorded figures which, even if very positive with respect to other regional economies, reflect mainly the activity rebound after the war. The vulnerability to external shocks may be measured by several indicators that, as pointed out in the staff report, raise particular concerns about high credit growth and weaknesses in the banking sector. But performance of these two indicators may indicate that the domestic or financial market is not working efficiently in allocating the resources, and that private sector behavior is misled by the perception of bailout guarantees in the system.

Export performance was weak in the past years, as previously explained by the staff, apart from the impact of the war on exports, a worsening in the external competitiveness has been recorded, mainly because of very high unit labor costs. As to future prospects, the recent trend in wage costs adds negatively to the competitive disadvantage of Croatia and calls for a firm commitment in the implementation of structural reforms. In particular, the corporate governance issue has to be tackled.

The prevailing model in which a large number of small shareholders exercises very little effective control over management and/or employee owners have an incentive to maximize wages at the expense of profit, does not leave room for further productivity gains.

From an institutional point of view, the medium-term prospects for Croatia's exports, with respect to the countries in the region, remain depressed at least until trade and economic arrangements with the European Union can be put in place. These arrangements have played a pivotal role in enhancing the trade of European Economic Community countries and have attracted trade complementing foreign direct investments. The launching of the EMU could have notable spillovers for these countries in the form of higher demand for exports and lower interest rates. If a sharp improvement in external competitiveness does not occur through domestic measures, Croatia could increasingly find itself in a more disadvantaged position.

Establishing a sustainable stance of economic policy, particularly fiscal policy, is essential to ensure that the current account position is consistent with the available sources of financing. In spite of a contained budget deficit, room for fiscal consolidation in Croatia appears to be great and constrained by increasing foreign borrowing by state-owned enterprises.

The reduction of more than 2 percentage points in the 1998 budget deficit is to be welcomed, but it is not sufficient to bring the commercial current account deficit on a sustainable track. Further actions are needed to fully adhere to the staff's recommendations and to bring down Croatia's high government expenditure-to-GDP ratio.

Ms. Wang made the following statement:

The Croatian economy has registered another year of strong economic growth with moderate inflation in 1997. However, as Mr. Wijnholds indicated in his helpful buff, certain risks exist in the present situation, and this chair tends to share the staff's concern that, without decisive corrective measures, the stabilization process might be undermined by the large amount of the current account deficit, weak state enterprise governance, and emerging banking sector difficulties. Since I agree with the thrust of the staff appraisal, I will limit my comments on a few points for emphasis.

First, tight monetary policy needs to be supported by adequate fiscal policy in curbing inflation and maintaining the stability of the kuna. Therefore the revised budget, which will lead to a balanced position of the consolidated central government for 1998, is welcome. It certainly will contribute to solving the external sector imbalance. While sharing the staff's concern that the revised budget might not be sufficient to ensure a sustainable external position, we are somewhat relieved by track record and the authorities' willingness to take additional measures if needed to restore equilibrium in the economy, as indicated by Mr. Wijnholds in his buff. We share the staff's concern about the large wage pressures and note that the government wage bill might increase significantly in 1999 without meaningful civil service reform and retrenchment. Leaving aside its direct effect on the budget for a while, we wonder what its demonstrative effects will be on other sectors of the economy, especially the state-owned enterprise whose wage bill is supposed to be frozen for 1998— unfortunately, we have just learned from the staff that it increased by more than 5 percent in June.

Second, on the external borrowing. Foreign borrowing has been Croatia's main source of financing the current account deficit in the past. In light of the relatively high ratio of external debt to GDP, cautious measures are needed to limit the expansion of Croatia's foreign indebtedness. In this context, the curbs on banks' foreign borrowing introduced in April are welcome. Due to the significant increase in foreign borrowing by the state-owned enterprises, as well as its large savings and investment gap, we believe that staff's recommendation for an overall limit on foreign borrowing by the enterprise sector is as important as the curbing of external banking borrowing and is worth considering.

Third, measures taken by the authorities to strengthen banking supervision and prudential control are particularly welcome. The urgency and importance of such efforts are justified both by the emerging fragilities of the domestic banking sector and the experiences during the past year in other areas of the world. The new Banking Law will help to promote the independence and authority of the supervisory and regulatory functions, and we join the staff in urging the authorities to accelerate its introduction.

With these remarks, we wish the authorities success in their efforts in achieving sustainable economic growth.

Mr. Hagan made the following statement:

I welcome the strong growth and stable inflation being experienced in the Croatian economy during 1997 and into 1998. In regional terms, as Mr. Lushin said, at this time Croatia remains a relatively successful economy. However, as others have already made clear, there are grounds for concern as to whether this good performance can be continued unless strong measures are taken in several key areas in the near future.

The first and most obvious point of concern which has already been debated at length is the current account deficit. Taking into account the observations of Mr. Wijnholds and Mr. Lushin, I find I'm still in agreement with the staff position on the current account deficit.

Secondly, delaying action, particularly on structural reforms, may be possible in the short term because of the generally healthy position, and in the future in potential growth areas such as tourism, but such delays will have medium- and long-term costs which outweigh the perceived short-term advantages.

I agree in particular with the assessment that public sector enterprises should be carrying more of the adjustment burden at this stage. The poor financial performance of state-owned enterprises is a clear signal that action is needed now. As has been demonstrated in other transition economies, the restructuring process is often slow and painful. The pain is only likely to be increased while action is delayed.

Thirdly, I welcome the steps being taken by the authorities to improve banking supervision and prudential control outlined in Mr. Wijnholds's statement. There is an urgent need to regain domestic and international confidence and credibility in the sector, particularly following the run on the Dubrovacka Banka. I would like to endorse the measures listed in paragraph 12 of Appendix 4 of the paper for further improvements.

Like a previous speaker, the details in paragraph four of that appendix and uncertainty about the extent of the connected lending in the banking sector leave me still uncertain as to the systemic threat to the banking system. I understand that staff cannot monitor the connected lending position in detail, and perhaps Mr. Wijnholds may wish to comment on the authorities' view of connected lending and the problem it poses.

Finally, relatively little importance seems to have been accorded in the paper to the informal economy. Some estimates put this sector as high as 40 to 50 percent of GDP. Could the staff comment on the accuracy of this figure, and the trends in this sector. For example, is growth in the informal sector higher than in the formal sector? And also, on attempts by the authorities to bring more of this activity into the formal sector.

Mr. Blancher made the following statement:

To begin with, I cannot resist commending the Croatian soccer team for their impressive performance and wish them well in the future.

It comes as no surprise that the policy discussions focussed on the current account deficit and the accommodative credit and income policies which appear to be major challenges facing the economy of Croatia. Close attention paid to the situation of banking sector was also warranted. As a whole, robust economic growth and low inflation continue to be positive developments as well as corrective actions undertaken by the authorities which maybe could have inspired a less alarming tone of the staff report. Yet I agree that recent information provided related to wage data or tourism receipts are matter for concern.

As for the external current account, I recall that last year the degree of uncertainty was particularly stressed, pointing to an important possible overestimation of deficits in 1995 and 1996. Making a qualified assessment on the adequate macroeconomic policy stance was thus seen as a complicated task. At that time, however, staff's sustainability analysis was rather comforting. The current situation appears somewhat different today since the sharp deficit registered in 1997 was not expected. Even after correcting the one-off factors pushing imports upward by 2 to 3 percent of GDP, the extent of the deterioration of the current account deficit is a matter for concern and certainly calls for prompt policy actions. Fiscal consolidation, tightening of credit policy and wage restraints in the public sector are clearly required. The authorities' willingness to take additional measures if needed to restore the equilibrium in the economy, as indicated by Mr. Wijnholds in his helpful buff, is encouraging. Beyond the need for demand adjustment, it appears all the more important to create conditions for maintaining or even improving external competitiveness. Here, I fully concur with staff that an acceleration of structural reforms, including early privatization of enterprises and banks, should play a decisive role. I strongly encourage the authorities to make swift progress in this area. The enforcement of a proper regulatory framework should also help to attract more FDI, which remain low in the country and should benefit the economy through technology transfers and nondebt creating capital inflows.

With regard to the banking sector, I welcome the current efforts aimed at strengthening the supervision system and am encouraged by the fact that the Government has now approved the draft of the new banking law. As staff mentioned in their report, the sector shows clear signs of over banking and therefore no opportunity should be lost to rationalize and consolidate it. More specifically, I agree with staff that liquidity support should not be provided to insolvent banks. The failure of the fifth bank of the economy and all the related problems it revealed -namely the nexus between business and politics- should be used by the Government and the Central Bank as an opportunity to increase transparency, impose a tighter control on bank activities and allow foreign banks to enter the market.

Mr. Kpetigo made the following statement:

Despite the progress made over the recent years, Croatia's most macroeconomic indicators in 1997 suggest that strains has continued in the economy. Output growth rate has increased slightly with inflation remaining low. The rise in the wage bill along with increasing consumer credit has, however, contributed to the surge in the private consumption. Also, a strong import growth has resulted in the current account deficit deterioration. On the other hand, meaningful progress was achieved in the banking system with the privatization of a number of state-owned banks, while in the enterprises sector the authorities were persevering in their efforts as regards the privatization agenda.

Since most of my concerns have been covered by the staff and previous speakers, I will limit myself on a few remarks for emphasis.

While the 1998 budget adopted by the parliament in December 1997 suggests only a little improvement, revised budget projections, three months later, showing a smaller deficit is encouraging. We note that limits on wage increase in state-owned enterprises were not observed and urge the authorities to pursue their efforts to improve the saving-investment balances of several enterprises in the public sector.

On the monetary policy, we have some concerns regarding the authorities' intention to allow their currency appreciate in the summer time, as this could give boost to imports and contribute to a further deterioration of the external current account deficit. Could the staff indicate whether the authorities have maintained their policy stance on that matter? We are also of the view that more restrictive monetary policy is needed with further reduction in the credit expansion if the current account deficit is to improve to 7 percent of GDP in 1998.

Overall, while we commend the authorities for their past efforts, it is however quite clear that to address the current macroeconomic imbalances, Croatia needs to implement further adjustment measures, particularly, in the fiscal and monetary areas. Like other speakers, we urge the authorities to implement such measures and wish them well.

Mr. Askari made the following statement:

I fully support the staff's appraisal of the current economic situation and policy requirements, and I think the staff is right in sounding the alarm. From the staff report, one senses that the authorities are not yet convinced of the need for disciplined and consistent macro policies, as reflected in the slippages that are reported.

Growth has been relatively strong and Inflation relatively low. The latter, however, is somewhat puzzling. The laxity of macro policy together with sharp wage increases should have led to more pronounced inflation pressures. This raises a question on the reliability of CPI numbers.

In any case, the healthy growth and inflation numbers should not create a false sense of security for the authorities. We have observed a number of times recently how seemingly healthy economies can collapse when there are fundamental weaknesses in the structure of the economy and poor governance.

The authorities need to seriously consider Fund's policy advice.

Finally, on the issue of military expenditures, I tend to agree with Mr. Wijnholds' remark. The comparison with the OECD is not appropriate. Continued tension in the region could justify higher military expenditures than in the OECD area. As a general comment, the staff and the Board do not have the expertise to judge how much military expenditure is needed to guarantee the safety and security of a country. I think I would support Mr. Wijnholds' suggestion to just acknowledge the reduction in military expenditures in Croatia rather than making a judgement as to whether it is high or low.

The staff representative from the European I Department stated that the informal sector constituted about 25 percent of the economy. A new banking law, which called for higher minimum capital adequacy standards, was before parliament, and it was to be hoped that it would be approved by the end of the year. The introduction of higher minimun capital standards was likely to lead to some rationalization and downsizing in the banking system. The accumulated balance of the deposit insurance scheme, which had begun in 1997, could not have covered the deposits of Dubrovacka Banka. About 90 pereent of deposits of households were covered by the deposit insurance scheme.

The staff representative from the Policy Development and Review Department stated that, in the staff paper, the staff had attempted to be frank about its assessment of Croatia's exchange rate policy. In that regard, it needed to be borne in mind that it was understood that market-sensitive pronouncements about exchange rate policy could be removed from summings up when they were translated into Public Information Notices (PINs), under the terms of the understanding about the issuance of PINs.

Mr. Wijnholds stated that he remained concerned about the relationship of the Fund with Croatia, and the fact that patently political reasons were overcoming objective economic arguments in the Fund's dealings with the country. In that light, while it was true that there were a number of economic issues that the authorities needed to deal with, none of those could be considered as justification for the decision in 1997 not to proceed with the extended arrangement. In that connection, he recalled that Ms. Lissakers had testified before the U.S. Congress that political pressure had been applied successfully through the Fund to a number of countries, including Croatia. He could therefore not accept the contention that the decision of the preceding year had been based purely on economic grounds.

The authorities wished to have a continuing close relationship with the Fund, Mr. Wijnholds emphasized. That could not be in the form of a Fund arrangement, as the authorities obviously could not count on the continuation of such an arrangement, given their past experience. He hoped that a staff-monitored program would be agreed.

The projected current account deficit, whether the staff's or the authorities', was on the high side, Mr. Wijnholds considered, and in that respect, the staff's warnings might sound a wake-up call to the authorities. At the same time, it seemed that some countries received a stronger warning from the Fund on that point than others in similar situations. The curbs on short-term capital inflows, which the authorities had imposed in April 1998, were intended to control the rising level of imports, given the close relationship between those factors, and in that respect, perhaps the authorities were justified in being more optimistic about the current account position than the staff. He agreed that wage developments warranted close monitoring.

He was not sure whether the problems with the banking system represented a systemic threat, Mr. Wijnholds concluded, but the coming external audits of the banks--by reputable international firms--might provide some indications on that point. The possibility that some of the smaller banks would be closed later in the year could not be excluded. With regard to the comment that had been made that Croatia was overbanked--with 90 banks in a country of 5 million people--he would only note that, on that basis, the United States could also be considered as overbanked.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the success so far of their exchange rate-based stabilization efforts. Real growth had remained robust since 1994, inflation had stayed low, and international reserves had increased. In addition, Directors welcomed the efforts to advance structural reforms, most recently in the area of rehabilitating the state-owned banks and moving ahead with voucher privatization. However, many Directors stressed that Croatia now faces a difficult external economic situation that requires decisive and early corrective action.

Directors expressed serious concern about the unsustainably large current account deficit in 1997. They noted that rapid growth in wages and bank credit, as well as poor overall state enterprise performance and an expansionary fiscal stance, had all contributed to this outcome. Directors were also concerned about emerging difficulties in the banking sector and the sluggishness of structural reform in several areas, most notably in the enterprise sector. Against this background, Directors agreed that decisive measures needed to be taken quickly--including macroeconomic adjustment and acceleration of public enterprise restraint, and restructuring, and banking sector reform--to ensure the sustainability of Croatia's external position and to promote macroeconomic stability and durable growth.

As regards fiscal policy, Directors welcomed the authorities' fiscal consolidation efforts. Nevertheless, several Directors were concerned that the authorities' policy package for 1998 did not go far enough to return the current account of the balance of payments to a sustainable path, while some other Directors did not regard the fiscal policy stance as the root cause of the problems. Nevertheless, Directors saw further fiscal adjustment as the most appropriate available means to help to bring about the needed external adjustment. Moreover, Directors noted that the likely cost of financial sector reforms would require offsetting measures to prevent a deterioration of the fiscal situation.

Directors cautioned that the need for fiscal adjustment will be even larger if it is not accompanied by greater financial discipline in the public enterprise sector. They urged faster progress on privatization as it was the best way to improve corporate governance, particularly when it involved strategic investors. In the interim, Directors supported the placing of limits on borrowing by the state enterprise sector, while at the same time seeking to lower operating costs and improving the monitoring and evaluation of borrowing and investment plans. There was some concern that public enterprise foreign borrowing may be perceived by some lenders and borrowers to carry an implicit government guarantee.

Directors underscored the need for a firm grip on wage policy, both in the budgetary sphere and in the state enterprise sector. They noted that wage restraint in the budgetary sector will be very important, not only for its demonstration effects, but also because of the limited room for maneuver elsewhere in the budget in the context of heavy demands for social spending and reconstruction. In this regard, Directors were concerned that 1999 government wage bill was already poised to increase significantly as a result of carry-over effects. This unfortunate outcome could only be avoided through meaningful civil service reform and retrenchment. Directors also supported a strict implementation of a wage freeze in the state enterprise sector to safeguard against an unwanted erosion of competitiveness and profitability.

Turning to financial matters, Directors expressed concern about recent stresses in the banking sector. They advised the authorities not to prolong the operations of unviable banks, but rather to close them within the context of a unified market-based banking strategy. Directors were also troubled by the rapid expansion in bank credit which, coupled with the large-scale foreign borrowing, had effectively removed hard budget constraints on the nongovernment sector, and could increase Croatia's vulnerability to shifts in market sentiment. While welcoming the measures taken since September to tighten the monetary stance, Directors thought that monetary policy may need to be tightened further to support external adjustment within the framework of keeping the exchange rate within narrow bands. In this context, Directors cautioned that providing liquidity to unviable banks would be inconsistent with overall monetary and external objectives, as well as with sound banking principles. Directors welcomed the implication that the authorities are prepared to take corrective measures if needed.

Directors welcomed the preparation of the new banking law and urged the authorities to accelerate its introduction. This law would help promote independence and authority of the supervisory and regulatory functions, and would be an important element of a unified market-based banking strategy. In addition, Directors stressed the urgent need to improve the central bank's internal supervision capabilities and strengthen enforcement of prudential and monetary policy regulations.

It is expected that the next Article IV consultation with Croatia will be held on the standard 12-month cycle.

## DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/98/73 (7/8/98) and EBM/98/74 (7/10/98).

## 3. SOUTH AFRICA—ARTICLE IV CONSULTATION—POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance Over Exchange Rate Policies" attached to

Decision No. 5392-(77/63), adopted April 29, 1977, as amended, the Executive Board decides that the period for completing the next Article IV consultation with South Africa shall be until July 17, 1998."

Decision No. 11757-(98/74), adopted
July 8, 1998

## 4. INCOME POSITION FOR FY 1998—REVIEW

The Fund has reviewed the income position for FY 1998 in accordance with Rule I-6(4)(c).

Decision No. 11758-(98/74), adopted
July 9, 1998

## 5. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 97/99 are approved.

## 6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/98/125 (7/7/98) is approved.

APPROVAL: January 30, 2001

SHAILENDRA J. ANJARIA
Secretary