June 20, 2001
Approval: 6/27/01

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 99/105

10:00 a.m., September 16, 1999

Contents

Executive Board Attendance

M. Camdessus, Chairman
S. Fischer, Acting Chairman
S. Sugisaki, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	S.M. Al-Turki
A. Barro Chambrier	D. Ondo Mañe
	J.A. Chelsky, Temporary
	J. Nelmes, Temporary
A.G. Carstens	H. Oyarzábal
R.F. Cippà	W. Szczuka
B. Esdar	W.-D. Donecker
N. Eyzaguirre	A.G. Zoccali
R. Faini	J. Spraos
K.A. Hansen	
K.-T. Hetrakul	
V. Kelkar	A.G. Karunasena
	N. Jadhav, Temporary
W. Kiekens	J. Prader
K. Lissakers	B.S. Newman
J.-C. Milleron	G. Bauche
	M. Daïri
	S. Rouai, Temporary
J.P. de Morais	C. Rustomjee
	P.A. Akatu, Temporary
A.V. Mozhin	I. Zakharchenkov, Temporary
S. Pickford	S. Collins
M. Portugal	V. Dhanpaul, Temporary
A.S. Shaalan	A.F. Al-Faris
G.F. Taylor	
Wei Benhua	
	Y.G. Yakusha
Y. Yoshimura	M. Takeda
	M. Yanase, Temporary

S.J. Anjaria, Secretary,
A.S. Linde, Acting Secretary,
Z.R. Ahmed, Assistant,
N.S. Hairfield, Assistant,
G. Nkhata, Assistant,
S. Soromenho-Ramos, Assistant

Also Present

IBRD: E.A. Gerken, Poverty Reduction and Economic Management Office; Y.C. Kim, Development Economics Office; A. van Trotsenberg, Africa Regional Office. African Department: A. Basu, Deputy Director; G.G. Johnson, J.T. Reitmaier, S.L. Rothman. Asia and Pacific Department: H. Shishido. External Relations Department: T.C. Dawson, Director; M.W. Bell, G.V. Bhatt, C.N. Lotze, L. Wallace. Fiscal Affairs Department: P.S. Heller, Deputy Director. Legal Department: R.C. Baban, H. Elizalde, H.V. Morais, I. Mouysset. Monetary and Exchange Affairs Department: V. Sundararajan, Deputy Director; A. Ariyoshi, K.F. Habermeier, M.Y.J. Khamis, C.S. Lee. Policy Development and Review Department: T. Leddy, Deputy Director; D.J. Andrews, B. Banerjee, A.G.G. Bennett, N.R.F. Blancher, A.R. Boote, K.G. Fitchett, N.L. Happe, J. Hicklin, D.G. Jones, K.H. Kang, I. Kapur, G.R. Kincaid, N. Laframboise, M.L. Parkinson, J. Seade, N. Staines, K. Thugge. Research Department: M. Mussa, Economic Counsellor and Director; F. Larsen, Deputy Director. Secretary's Department: P. Gotur, A. Mountford, B.A. Sarr. Technology and General Services Department: B.C. Stuart, Director; R.F. Franklin. Treasurer's Department: E. Brau, Treasurer; M.G. Kuhn, Deputy Treasurer; B.V. Christensen, J.C. Corr, S.T. Lurie, A.K. McGuirk. Western Hemisphere Department: A.D.L. Hilaire, C.A. Paiva, R.K. Rennhack, A. Salehizadeh, S. Shah. Office of the Managing Director: M. Cross, Personal Assistant; J.A.P. Clément, D.A. Citrin, E.-A. Conrad, P.J. McClellan, H.L. Mendis, N. Sachdev. Advisors to Executive Directors**:** B. Couillault, A. Del Cid-Bonilla, J.C. Estrella, S.S. Farid, P.R. Fenton, O. Himani, E.J.P. Houtman, A.R. Ismael, J.M. Jones, M.F. Melhem, W. Merz, Nguyen Q.T., L. Palei, A.R. Palmason, Y. Patel, G. Schlitzer, M.R. Shojaeddini, M. Sobel, S. Thiam, I.M. Woolford, F. Zurbrügg. Assistants to Executive Directors: A.S. Alosaimi, S.A. Bakhache, J.G. Borpujari, P.A. Brukoff, M. Budington, P. Cabezas, M. Carlens, G. De Blasio, R. Djaafara, T. Elkjaer, A. Jacoby, C. Josz, A. Kapteijn, B. Kelmanson, S.K. Keshava, M.E. Kandil, D.H. Kranen, Liu Z., W.C. Mañalac, Y. Moussa, D. Nardelli, Peh K.H., M. Pérez dos Santos, C. -P. Schollmeier, R.J. Singh, Siti Mariam Mohd. Yusof, Sugeng, Vongthieres O., M. Walsh, Wang X., P. Winje.

1. ENHANCED STRUCTURAL ADJUSTMENT FACILITY AND INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES—FINANCING ISSUES

The Executive Directors considered a staff paper on the financial and operational modalities of off-market transactions in gold by the Fund (EBS/99/176, 9/15/99), together with a staff paper on the status of bilateral pledges for financing of the Enhanced Structural Adjustment Facility and the Initiative for Heavily Indebted Poor Countries (FO/DIS/99/130, 9/15/99).

The Chairman made the following statement:

Before I open the floor for a discussion of the financing modalities of the ESAF and HIPC initiatives and announcement of any new pledges of contributions, I would like to stress a few points:

First, you have received a staff paper on Financial and Operational Modalities of Off-Market Transactions in Gold by the Fund. This paper describes in detail, the financial and operational modalities of off-market transactions for gold, and outlines the decision that would be required to authorize the transactions and other related actions. The countries that are likely to be involved in the first transactions have reacted positively to the proposals.

Second, the staff has also circulated a table showing the status of bilateral pledges. I am most grateful to those countries that have indicated further contributions. However, as you can see from the latest figures, our task to reduce the financing gap remains formidable. Many SCA-2 participants have not yet indicated that they will contribute their SCA-2 balances, once they become available, or provide the grant equivalent in bilateral contributions to the ESAF-HIPC Trust.

Third, I would appreciate Directors' further reflections on the issue of ring fencing. Most of us agree that off-market gold transactions are not the best option. We could therefore propose to the Board of Governors a statement on ring fencing for inclusion in the Interim Committee communiqué. The statement could read:

"The off-market transactions in gold by the Fund that are envisaged will be a one-time operation of a highly exceptional nature that is necessary to allow the Fund to contribute to resolution of the debt problems of the HIPCs, at the turn of the millennium, and to a continuation of ESAF operations or its successor facility in the Fund."

Such a statement will only be credible if we finalize the financing package for the ESAF and the HIPC Initiative. Let me now invite each

Director to comment on the proposed financing package, additional bilateral pledges, and ring fencing.

Mr. Al-Turki made the following statement:

The Y2K facility seems reasonable. I can go along with the proposals regarding the defining circumstances, the shorter repurchase timetable and the duration of the facility.

With regard to the proposed access limit, while a 100 percent of quota seems reasonable at this moment, it should be applied with flexibility. Having said this, I am not very clear on how this facility fits the needs of lower-income countries which also could face disruptions related to the Y2K problem.

Mr. Barro Chambrier made the following statement:

I can confirm the pledge made by my Gabonese authorities. We also have a pledge from the Mauritian authorities, but we are trying to obtain more than the equivalent of the SCA-2 balance. We would have no problem supporting the proposal for additional gold sales and the statement on ring fencing.

Mr. Chelsky made the following statement:

First, I can confirm the accuracy of the information on the status of bilateral contributions from the countries in our constituency. In terms of the decisions, we can accept the decisions in paragraphs 25-27, including the recommendation to sell up to 14 million ounces of gold. With respect to burden sharing, this chair has some concerns about relying on financing mechanisms that shift an inappropriate share of the financing burden onto developing countries. We would thus prefer burden sharing through the rate of remuneration alone, to insulate low-income and developing countries to the maximum extent possible. That being said, we could accept a modest offset being absorbed by the Fund has suggested in the staff paper.

On ring fencing, we are pleased with the language that you have proposed, because we consider that it would be inappropriate for this institution to comment on future market gold sales, given that we are not undertaking market sales. That would take us out of the realm of a neutral position and into the realm of trying to manipulate the gold price.

Lastly, I have one question. In paragraph 5, the staff report states that the member would be asked to represent that it would not sell gold so acquired in the market. I would appreciate some clarification from staff on the use of the word “represent”. I presume that this is just an informal arrangement and not an obligation.

The staff representative from the Treasurer’s Department noted that there would be a clear agreement between the Fund and the member involved in the transactions that the physical amount of gold would remain with the gold depository and that there would be no subsequent sales of gold in the market by the member. Without shifts in actual gold, there would be no risk of receiving a different quality of gold as repayment in the course of the transactions.

Mr. Chelsky said that he understood the utility of such an approach, but questioned the appropriateness of the Fund requiring, as part of a formal agreement, that the member undertake certain management of the gold that it acquired. In his view, it was clear that any member agreeing to take part in the transactions would, in good faith, act consistently with the agreement in any event.

The Chairman noted that the agreement would apply to only one-day holding of gold, if at all.

The staff representative from the Treasurer’s Department explained that the purpose of the agreement was to safeguard the Fund, by ensuring that it maintained exactly the same kind of gold in its holdings.

The Chairman pointed out that the issue of moving gold from one shelf to another was heavily loaded in the central bank context.

Mr. Portugal explained that his understanding from bilateral discussions with the staff, was that there would be, on one hand, a written assurance by the country involved that there would be no shifts, and, on the other, a written assurance from the Fund that it would accept the gold in repayment of the financial obligations falling due, such as a repurchase. However, the two assurances would not be linked to one another.

The Chairman confirmed that interpretation.

Mr. Cippa made the following statement:

During our previous discussions, I indicated that my Swiss authorities were reconsidering the possibility of off-market gold sales. They are still not happy with this proposal, but they are also realistic, and they can now go along with your proposal, subject to the conditions indicated in your statement, namely SCA-2 burden sharing, and strong ring fencing. We can also agree with your proposed language on ring fencing.

On bilateral contributions, I do not have any more news from my authorities, but I was somewhat surprised that the Swiss contribution has been increased in the table to reflect our share in total bilateral pledges. The total

> pledge indicated is SDR 2 billion. First I wonder why that figure is still SDR 2 billion, when we are selling 14 million ounces of gold? Should it not be reduced to SDR 1.6 billion? Second, our pledge was never on the total bilateral contribution. That figure is too high. I could discuss this with staff on a bilateral basis.

The Chairman pointed out that the ambitions for the bilateral pledges had not been reduced as a consequence of the proposal to sell 14 million ounces of gold. Bilateral contributions remained ever more crucial.

The staff representative from the Treasurer's Department explained that the amount of bilateral contributions as indicated in the Managing Director's statement the previous week was a minimum, not a target. Indeed, the objective was to exceed that amount. In the end, the Swiss contribution and other contributions, including in the Nordic constituency, would be adjusted to reflect actual commitments. The Swiss contribution could thus end up being different from the target. The objective was to fill the total remaining financing gap with bilateral contributions.

Mr. Cippa said he understood that in this type of exercise the more contributions, the better, but the reason his chair had agreed to move from 10 million ounces of gold sales to 14 million was because the target contribution of 2 billion could not be reached.

The Deputy Director of the Policy Development and Review Department stressed that the proposal to sell up to 14 million ounces of gold had not, in any sense, relaxed the effort to obtain as much as possible in bilateral financing, in the hope of minimizing the necessary gold transactions.

The Chairman emphasized that the gold transactions were not intended to bail out bilateral donors. On the contrary, the Fund's contribution was totally conditional on there being sufficient bilateral pledges. Management's proposal to sell up to 14 million ounces of gold was meant to show how serious management was about ensuring that a solid, financing package was put together by the time of the annual meetings.

Mr. Esdar made the following statement:

> When we discussed this issue on Monday, I indicated that we were considering increasing our bilateral contribution, and that we were reviewing the proposal to slightly raise the amount of gold transactions to fill the remaining gap. I also indicated that I could only make my final statement when there was a full decision on this issue. Nevertheless, I can already tell you at this stage that I am not, so to speak, unoptimistic in this regard.
>
> I would also like to point out that my authorities consider that we have to come to a final financing package, with no follow-up financing. We will also abide by our decision to have a permanent ESAF, and not question this again.

> With regard to ring fencing, I could live with your text before Mr. Chelsky spoke, but now, I am somewhat concerned that the intention is to ring fence only the off-market gold transactions, and to leave the door open for additional on-market gold sales. This was not my understanding of your formulation, but if this is indeed a possible interpretation, then it has to be redrafted. We need to make it clear that this is a unique situation.
>
> On burden sharing, and how to deal with the cost, I am sure that we can find a solution, although I do not wish to propose any specific formula at this stage.

The Chairman said that he would circulate the proposed statement on ring fencing for Directors' further consideration. In his view, it covered the concerns that had been raised as regards the uniqueness of the operations, the amount, and the modalities. As the transactions were ring fenced, it would be strange to refer to the modalities of the next transactions.

Mr. Esdar asked if the statement could be interpreted to mean that the Fund was considering more gold sales in the future, if necessary.

The Chairman confirmed that was not the case.

Mr. Taylor indicated that he, too, could have accepted the wording proposed by the Managing Director until Mr. Chelsky had intervened. It was not the words per se, but how they might be interpreted, he emphasized. If some ministers interpreted the wording as leaving the way open for on-market gold sales, then the proposal would not get the support of his principle constituent.

Mr. Chelsky said that he did not regret making his comments, as it was important to ensure clarity in this regard. The Articles of Agreement allowed for gold sales, even if only under restrictive conditions. The proposed wording did not indicate that there was any active consideration of on-market gold sales for the initiative, but it would be inappropriate to make comments about what the Fund would do in the future. The Articles were there, and they were transparent.

Mr. Faini noted that the Board was venturing into difficult territory. Mr. Chelsky was right: the Article permitted gold sales under certain conditions. Off-market transactions were also perfectly legal under the Articles. The intention was to make a public commitment not to undertake transactions that were otherwise perfectly legal under the Articles of Agreement. This commitment would be subjected to a strong credibility test.

The Chairman added that the statement was not an interpretation of the Articles, but a declaration of political nature, which highlighted the fact that this was a highly exceptional and unique gesture to mark the occasion of Jubilee 2000.

Mr. Faini, agreeing with the Chairman, noted that the ring fencing referred to the off market operations, which he supported fully, particularly as the transactions were not fully transparent from an accounting point of view, even if legal. Mr. Esdar was right to mention the commitment not to undertake direct gold sales. Whether the Fund should make a public commitment to reassure markets that it would never sell gold was another matter.

The Chairman noted that the Board could never say never. The statement was political, and was needed to qualify the operation.

Mr. Pickford endorsed Mr. Faini's comments, and agreed that the Fund could "never say never," particularly on the question of direct gold sales. Although he envisaged off-market transactions would not actually change the supply and demand balance on the gold market, he was willing to go along with the idea of a political statement, and to support the formulation on ring-fencing proposed by the Managing Director.

The Chairman highlighted the significance of a political statement by an 85 percent majority of the Governors of the Fund.

Mr. Eyzaguirre made the following statement:

> On bilateral pledges, I have stated in previous meetings that some of the bigger countries in my constituency will have problems with contributing their SCA-2 balances as a grant, as this would amount to pledges in excess of their quota shares. Nevertheless, the two countries where the SCA-2 amounts are largest are considering contributing the balances as deposits with longer maturities and lower rates close to zero. In addition, we are making progress on securing additional pledges from those countries for which the SCA-2 balances would not be sufficient.
>
> As regards off-market gold sales, we are open to the idea of increasing the amount of gold sales up to 14 million. On burden sharing, I am willing to join the consensus. On ring fencing, I am reassured by your statement.

Mr. Faini made the following statement:

> I was pleased to see that the table has been readjusted to reflect the information that the SCA-2 balances of both Greece and Italy will be contributed as grants. On the understanding that the off-market transactions will not have a negative impact on gold prices, Portugal will also contribute its SCA-2 balance as a grant.
>
> I am not too pessimistic on the possibility of additional bilateral contributions, but I cannot make any firm commitments at this stage.
>
> On ring fencing, as I said earlier, I am comfortable with the proposed language.

Mr. Carstens made the following statement:

> I am most comfortable with the proposed language. On the gold transactions, we agree fully with paragraphs 25-28. As my constituency is also composed of creditor and debtor countries, we could go with the consensus on burden sharing.
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> Mexico is prepared to be a counter party in the gold scheme. I have consulted with my authorities, and they are more than willing to cooperate on this matter. In terms of bilateral pledges, all the countries in my constituency are willing to contribute on an equitable basis, but there are some legal obstacles to be addressed. We expect to have more definite answers early next week.

Mr. Hansen made the following statement:

> I can be brief. I cannot at this stage confirm any of the numbers in the table. With respect to gold sales, we abstain. We would like to see the whole package before taking a decision.

The Chairman pointed out that if all Directors adopted a similar stance, the financing package would never be completed.

Mr. Kiekens made the following statement:

> We are very supportive of your efforts to get more bilateral contributions and we have noted your concern that we should not pay too much attention to burden sharing. However, it may be necessary to look more closely at burden sharing to encourage contributions. I will be outspoken, and note, in this regard, that none of the G-7 countries have so far pledged a dollar, or an SDR, above what they will receive from the Fund in restitution of the SCA-2. Based on that criterion—which admittedly is not perfect—the generous countries are Belgium, Denmark, the Netherlands, Norway, Singapore, Sweden, Switzerland, Saudi Arabia, and Mexico. That being said, I expect that every member, and especially the leaders in this forum, will make an effort to ensure a real budgetary contribution above what they receive from the Fund.
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> Mr. Esdar said that he was “not unoptimistic” and announced that he envisaged a slight increase in Germany’s contribution. That is not enough. There must be a 50-percent increase in the German contribution, considering what the country will receive as restitution from the SCA-2. Belgium is considering doing more, even though it is already contributing substantially above the equivalent of its SCA-2 balances as a grant, but the decision will depend on the response of others.

> I accept the off-market transactions because my authorities accept them for political reasons, although not economic reasons. This is a political decision. As to how much we should sell off market? I cannot commit myself to any amount. We need to see what the bilateral contributions amount to in order to take a considered decision. In addition, we need to reach an understanding on how to compensate the Fund for the income loss.

Mr. Daïri noted that his country had also contributed more than the equivalent of its refunds from SCA-2.

Mr. Faini made the following statement:

> I was hoping that these controversies had been put to rest in our previous discussions. I regret that they have been brought up again. The criteria just suggested, namely the contribution in terms of SCA-2 balances that are rebated is purely random. It is not a reflection of the weight and the role of each country in the Fund. It simply depends on the country's accumulated creditor or debtor position. It should not be used, and I am surprised that it is being used as a criterion to assess the size and proportionality of the contribution of each country. Having said that, I would join the Managing Director in emphasizing the need for each of us to make all efforts to get this initiative fully funded.

Mr. Esdar also regretted that the discussion had been reopened, but wished to point out that burden sharing considerations in the Fund were based on quotas; the German SCA-2 share was nearly 50 percent above its quota. In fact, his instructions had been to make clear that each country had to provide resources based on its quota share, but he had not done so because there had been an agreement to use the SCA-2 mechanism.

Mr. Faini noted that Italy's quota share was 3.4 percent, while the SCA-2 share was 4.3 percent, which had all been contributed to the HIPC-ESAF Trust.

Mr. Newman made the following statement:

> Mr. Kiekens's statement notwithstanding, my authorities are optimistic that we are making progress, and that we will have a successful resolution over the next few days, and certainly in the context of the annual meetings. I can reconfirm that our intention is to provide the full amount of our SCA-2 share as an upfront grant, subject to the legislative caveats that we have highlighted in the past.
>
> With regard to your proposals on gold sales, as you know, we are pragmatists in this area, and we recognize that off-market transactions are the only approach that is likely to get the necessary majority to achieve the desired end. We can support the proposal. We are also realistic with regard to

the amounts, and see your proposals as a basis for going forward, but we will cross that bridge when we actually get to it; while we are almost there, we are not quite there yet.

We can support the idea of ring fencing, and we will look at carefully at your proposed language, although we understand it may be revised. We look forward to receiving a full written text that we can pore over carefully before giving a definitive response.

Mr. Bauche made the following statement:

On bilateral contributions, I can only confirm what has been already been stated by this chair: the full amount of SCA-2 would be granted subject to legislative approval.

On off-market gold sales, although it is not an ideal solution, we can live with the decisions presented in paragraphs 24-27. However, as far as the mitigation of costs is concerned, we believe, like Mr. Chelsky, that the burden should, in fact, be taken by the rate of remuneration, because it would be highly unfair to ask certain developing countries to contribute to HIPC Initiative. It would be like robbing Peter to pay Paul.

Regarding ring fencing, we can live with the formulation that you presented.

As regards our bilateral contribution, I can only confirm what we have already stated in the past, and cannot make any commitment for the future, not even to say that we are "not unoptimistic."

Mr. Daïri made the following statement:

On the financing, our preference remains to seek additional bilateral contributions. However, we recognize the difficulties related to relying only on this mechanism. I would also like to stress the need to finalize the financing as early as possible. Therefore, I can support the additional off-market gold sales, even beyond the 14 million ounces referred to.

On bilateral contributions, I have nothing to add to the table provided by the staff. We are still seeking indications from members in our constituency on possible additional pledges or improvement in terms of existing pledges. However, we already have indications of severe legal constraints on the possibility of transforming loans to grants. That being said, if contributions are to be considered in relation to quota shares, first, we should differentiate between industrial countries and developing countries in this respect, and second, we should take into account the amounts contributed by members during earlier ESAF financing exercises.

On burden sharing, our preference is for a reduction in the rate of remuneration, but we can also support the staff proposal to have the Fund contribute to mitigating the cost.

Finally, on ring fencing, I agree that this statement will only be useful and credible if the total package is agreed, and I can go along with the proposed draft.

I would appreciate further clarification from staff on the figures presented. I was surprised to see that the tables take account paid quota subscriptions of some members. I expected that the table would be prepared on the basis of agreed, and not paid, quotas, otherwise, countries that have not paid their quotas fully will find their contributions in percent of quota higher than what they actually are.

The staff representative from the Treasurer's Department noted that it was a matter of judgment, but using paid in quotas was the norm in the Fund. The staff had therefore opted for using paid quotas, particularly as most of the member countries had already paid in their quota increases.

Mr. Morais made the following statement:

On bilateral contributions, Botswana has already pledged more than was needed based on its quota share. For the rest of the countries in my constituency, so far there are no changes in the status of the tables of August 30.

On the modalities of the off-market gold transactions, we can go along with the decisions in the staff report, paragraphs 24-28. We share the concerns expressed by Mr. Bauche as far as burden sharing is concerned. On ring fencing, although I have not yet consulted with all of my authorities, one country in my constituency has expressed great interest in these operations. I can go along with the proposed wording on ring fencing.

Mr. Mozhin made the following statement:

On the bilateral contributions, I do not have any more news, as we committed ourselves long ago to contribute Russia's share in the SCA-2 account in the form of a grant, and it is not expected that there will be any additional contributions.

We support the idea of off-market gold sales as the only viable option left at this stage. We do not have any fundamental difficulties with the modalities proposed in this latest document, in particular, as stipulated in paragraphs 25-28 of the document. However, we would need to return to the issue of modalities once we know more about the bilateral contributions.

Finally, on ring fencing we do not have any difficulties with the language you have proposed.

Mr. Pickford made the following statement:

On financing, I do not have anything concrete to add to the points that I have made on previous occasions. Discussions are continuing in many fora on all aspects of HIPC financing and I am sure they will continue over the next week. I can, of course, reconfirm our commitment to use SCA-2 transfers as grants.

On Mr. Kiekens's point, I appreciate his usual blunt form of speaking. There is some difficulty in going into this debate, and I do not wish to prolong it, because there are many ways of looking at the same problem. There is a danger in not adding contributions up across all the various institutions, and across time, as Mr. Daïri pointed out. In terms of previous contributions to ESAF, the U.K. was the third largest contributor, and, for instance, two or three months ago we announced a pledge of an extra $100 million on top of what we had already contributed to the HIPC Trust Fund, although that is not available for this institution. We are continuing to look at the possibility of additional bilateral contributions, but I must reiterate my authorities' concern to focus their support on the institutions with the greatest financing needs in terms of the overall HIPC framework, which in the view of my authorities are the other multilateral development banks, including the African Development Bank.

On the modalities of the gold sales, I will simply repeat what I have said before, that we are generally happy with the proposals, and can go along with them. On ring fencing, I have already had my say.

The Chairman said that he found it difficult to understand Mr. Pickford's position, considering the leadership role that the United Kingdom had played in the context of the ESAF and the HIPC initiatives. He hoped that this was not the last word, and that the United Kingdom would again take the lead in finalizing the financing for the initiatives that it had so brilliantly spearheaded. As regards the respective needs of the institutions, putting aside the problems of the African Development Bank, the validity of the reasoning of the U.K. authorities could be questioned, particularly in comparing the Fund and the Inter-American Development Bank.

Mr. Pickford commented that, despite coming from a finance ministry, he remained optimistic and hoped that this would not be the last word. He urged the Managing Director to use every opportunity to encourage the Minister to go a step further.

On the question of the relative needs of institutions, the African Development Bank was by far the biggest problem, and the United Kingdom had already contributed around $70 million dollars to fill its financing gap.

Mr. Portugal made the following statement:

> On additional gold sales, we would be prepared to join the consensus. We have only one concern about the set of proposals, which is that raised by Messrs. Chelsky, Bauche, and Morais, namely the increase in the rate of charge for Fund users. As I have indicated before, it would be difficult for us to support such a proposal. We have been approached informally by Fund staff to sound our willingness to participate in an eventual off-market gold transaction. I have consulted our central bank, and they are willing to cooperate should these schemes go ahead. We are also prepared to accept your proposal on the ring-fencing wording, with the interpretation that you have given to it.
>
> With respect to bilateral contributions, I have nothing to add to the information that I provided on previous occasions. I will continue to exert pressure on my authorities, and if need be, escalate the pressure to encourage countries to agree at least partly to what has been suggested. Using today's code, I am pessimistic that we would reach the full amount suggested, but not too pessimistic that at least some countries will accept contributing up to the equivalent of their SCA-2 balances. However, at this stage, there are no decisions. I should note here that this is a very difficult issue for us internally in Brazil.

The Chairman asked if any moves could be expected in the next few days.

Mr. Portugal responded that he could not confirm anything as yet. Brazil was a bilateral creditor to a number of HIPC initiative countries and had already extended $223 million in debt relief. At the same time, although some of its internal states were as poor as some of the HIPCs, the authorities had been strictly avoiding conceding any debt relief on the payments of those states to the federal government. This was a major political issue internally, so any decision on contributions would have to pass through Congress.

Mrs. Farid made the following statement:

> I can reconfirm that all countries in my constituency that participate in the SCA-2 have agreed to place their contributions as interest-free deposits.
>
> We can agree to the proposal on the off-market sale of up to 14 million ounces of gold and the modalities presented in the staff paper. Our preference on burden sharing would be that the additional burden falls mainly on creditor countries, rather than debtor countries and developing countries generally.

As for your proposal on ring fencing, we can go along with your proposed language.

Mr. Kelkar made the following statement:

Regarding gold sales, we indicated when the original proposal was discussed, that our chair is not favorable toward gold sales, which would reduce the Fund's own liquidity and currency, but we went along with the proposal to sell up to 10 million ounces in order to bridge the financing gap. Our preference is still to rely on more bilateral contributions, and this chair is not willing to accept increasing gold sales beyond what was already agreed earlier.

As far as the burden sharing is concerned, it is only fair that it should take the form of reductions in rate of remuneration, rather than in the rate of charge. Increasing the rate of charge would place pressure on developing countries.

As far as bilateral contributions are concerned, as I mentioned last time, Bangladesh will contribute its entire SCA-2 balances as a grant, while the other two constituents have agreed to contribute their SCA-2 balances as a deposit. I have nothing more to add at this stage, but I wish to underline the point made by Mr. Portugal. We have a similar problem in India.

We would support ring fencing, and the formulation that you have suggested for the statement.

Mr. Taylor made the following statement:

My message was already quite complicated. It has now become much more complicated in light of the earlier discussion. Let me first say that staff have been very helpful in providing information in recent times, and this paper on financial operations and modalities is particularly helpful in keeping my constituents abreast of the details of what is being proposed. It would also be helpful if staff could provide us with details on how disposal of the SCA-2 balances would operate under various circumstances. This does not have to be done immediately, but the lead-time in some countries might be quite long, so we hope that staff can do this as soon as possible.

On ring fencing, the wording sounds acceptable, but it is the way the words will be interpreted that really matters. While we can "never say never," saying "maybe sometime," will imply that there is something else in mind. In fact, it will convince the market that there is something else in mind. That would start the gold price descending again, which would in turn have three consequences. Firstly, it would be economically damaging to four of my constituents, including three poor countries that are already in economic difficulty. Second, it would make unreal the assumption in the staff papers of a gold price of $260—which in relation to the current prices is already optimistic—and open up the need for more than 14 million ounces off-market sales. Third, in relation to my Australian constituent, it would encourage a shift in preferences between institutions in terms of the overall effort.

I would, therefore, appeal to colleagues to help me in this matter, and not to engage in unnecessary speculative talk, but to take the ring fencing issue and its interpretation very seriously. I will report to the Australian authorities, and I cannot predict what the reaction will be, but I wish to put in a reserve in that respect until I get further advice.

On bilateral contributions, I have been in touch with each of the four main constituent members of my group very actively in recent days. I can confirm that each of them is considering this issue at a high level. The tone of the consideration ranges from the relatively sympathetic to the relatively unsympathetic. I do not have any fresh news at this point, but overall, I remain hopeful that there will be further bilateral contributions, but I cannot be more specific than that. One issue that has arisen is that there is a strong preference being expressed to reveal further contributions at the annual meeting, rather than earlier, which is obviously not consistent with the timetable that you are envisaging. I wonder whether you could comment on that.

Moving on to other matters, I need to continue making the point that to cast burden sharing for developing countries in the same terms as industrial countries is not equitable. If we need some kind of benchmark, the SCA-2 as a deposit criterion would be less inequitable.

In terms of the overall funding exercise, I can now confirm that this constituency favors selling, if necessary, 14 million ounces off market, and therefore the issue can be settled, in our view, regardless of the outcome of bilateral contributions.

Finally, on mitigating the costs of off-market gold sale, we would favor an equitable basis for burden sharing. At least one of my constituents would regard the notion of burden sharing as laid out in the paper as equitable, but I need to consult further before confirming the constituency position.

The Chairman thanked Mr. Taylor for his efforts, noting the difficulty of coming to a common statement in such a gigantic constituency. Tempting as it was for bureaucrats working on their ministers' speeches to retain the cherry of the cake for the Minister's plenary speech, that strategy could be counterproductive, particularly in view of the speed of events during the annual meetings. If all the chairs adopted a similar strategy, the package would not be finalized before the annual meetings, and contributions might appear to be a last minute attempt to patch up the catastrophe. Such a situation clearly needed to be avoided.

A balance had to be struck between satisfying ministers' legitimate desire for publicity and preserving the efficiency of the institution.

Mr. Chelsky made the following statement:

> First, I want to assure Mr. Taylor that my Canadian authorities, who also represent one of the world's major gold producers, are concerned with the health of the domestic gold industry. I hope that my earlier comments were not interpreted as suggesting that we should be publicly stating that the Fund is undertaking off-market gold transactions, and leaving open the option of on-market transactions. I was not in any way advocating such a stance, which would be inadvisable, and clearly not in our interest.
>
> One would be hard-pressed to find anywhere in the press, any commentary on this gold issue in which it is not understood that the off-market transactions are a substitute for on-market transactions, and nobody is actively discussing on-market transactions. I can assure Mr. Taylor that, at least from our standpoint, we will not be supplementing our comments on these particular off-market transactions with anything calling for a reopening of this issue, or ongoing consideration. The point being made is that we are only ring fencing the transaction that we are undertaking. That is all we really need to do. It is widely understood that this is in lieu of on-market transactions.

Mr. Pickford added that, while he believed that the Board needed to discuss the substance of the matters, Mr. Taylor was right that the public presentation care had to be exercised to avoid any statement that might have an adverse impact on the gold market. Indeed, it had to be made clear to the market that the transactions, which were being loosely referred to as gold sales, actually left the physical position of the Fund's holdings entirely unchanged. There seemed to be still some misconception on that point.

Mr. Houtman made the following statement:

> I would like to start on a positive note with regard to the bilateral financing. My authorities in Cyprus have just decided to convert their pledge of interest free loan of their SCA-2 balance into a grant. Apart from that, Mr. Wijnholds has already been very explicit in expressing the views of my constituency. All I can do today is to reaffirm those views: no more contributions will be forthcoming from our constituency. We do not see any progress in contributions from major industrial countries, so I am afraid that, at this stage, I have to maintain more or less the same position as Mr. Hansen.
>
> This also implies that we cannot support the draft decisions that are currently before the Board. However, we could reconsider our position if the current decisions were improved, to meet the following conditions. The first would be that full financing in the form of sufficient bilateral contributions is

secured, and in this regard, I fully share the remarks made by Mr. Kiekens. The second would be a strong ring fencing of the use of off-market transactions. In this regard, I think the text you proposed is quite helpful, but we need some more time to consider it. The third is to have a burden sharing, where the bulk of the burden must is borne by creditors, and not by debtors, and as little as possible is at the cost of an increase of the Fund's reserves. Finally, with respect to the profits from possible gold sales, only the investment income should be used and not the corpus itself.

When reading the helpful paper that came out yesterday evening, I was concerned that the condition in your statement for any further contribution by the Fund is that all members contribute an amount at least equal to the SCA-2 balances, provided as grants, that this condition is not now explicitly incorporated in the paper. For us, this condition is vital and I would suggest that it be included in the text of the draft decisions or resolutions. We reserve our position, but if these conditions cannot be fulfilled, we will probably abstain from voting.

The Chairman agreed that the condition was vital, and if not mentioned in the paper, it was for management and staff without saying, but it was certainly worth reiterating. He indicated that he was somewhat less pessimistic about progress on bilateral contributions, and stressed the need for all members to continue contributing to the momentum.

Mr. Houtman agreed that some progress had been made, but stressed that his chair wished to see much more substantial progress. He explained that he would be proposing making the execution of the Board resolutions conditional upon fulfillment of the condition formulated in the statement. Otherwise the whole scheme could not function.

The Chairman agreed that this would be a logical approach to the issue, but at the same time stressed the need for flexibility, as there could be a danger of the whole process being held hostage by a single country.

Mr. Yoshimura made the following statement:

Our bilateral contribution was discussed when the Managing Director visited Japan in December 1997. After those consultations, at the beginning of 1998, our authorities' decided on Japan's contribution. That decision was made during the Asian crisis, when views on the Fund were not very favorable, at least not in Japan. However, I persuaded my counterparts in Tokyo that this decision had to be taken as early as possible to show Japan's willingness to cooperate with other countries in Asia. I also urged them to make the contributions available in the form of a grant and to disburse the actual contribution, as early as possible, so that it would begin to yield investment income. I am pleased to announce that our payments begun in March last year, and we have already disbursed a substantial amount, which is yielding investment income.

> As to the necessity for additional measures to bridge the financing gap, we would be flexible and consider additional off-market gold sales up to 14 million ounces. I hope a broad consensus will emerge on this during the annual meetings, and so we can join that consensus.

The Chairman thanked Mr. Yoshimura for his contribution to encouraging progress in his country. Japan had taken a leading role in contributing to the ESAF-HIPC and was now the largest contributor. Now that the controversy surrounding the Asian crisis had cleared and the recovery was taking hold, the Fund's image in the region was more favorable, improving the leverage of those that considered that the Fund was contributing to a sound recovery. Frontloaded contributions would certainly be welcome, given the frontloaded needs, the Chairman continued.

Mrs. Hetrakul made the following statement:

> Indonesia and Malaysia have already confirmed their commitments, and three more of my countries—Cambodia, Singapore, and Tonga—have recently confirmed their commitments as recorded in the table provided by staff. We are still waiting for the decisions in the other countries in my constituency. I do not know whether I should be optimistic or pessimistic about the possible outcome.
>
> On the gold sales, we can support paragraph 25-27 as proposed. On burden sharing, countries in my constituency would prefer an adjustment in the rate of remuneration, together with the possibility of the Fund absorbing part of the cost.
>
> On the ring fencing, I can support the proposed language.

Mr. Wei made the following statement:

> On the gold sales, we could go along with the proposals in the paper. On sharing the burden of the cost of the transactions, in light of the difficulties of the debtor countries at this moment, the cost should be taken by the creditors of this institution. However, I would like to note that there are two types of creditors, industrial member countries, and developing member countries. I believe that the industrial countries should take the largest share of the burden.
>
> On ring fencing, I can go along with the proposed language.
>
> On bilateral contributions, I do not have additional information at this moment. I hope at our deputies meeting industrial countries will take the initiative to increase their contribution, as that could influence the other countries, including China.

Mr. Al-Turki said that he could go along with the consensus to sell up to 14 million ounces. He also approved the proposed language with regard to ring fencing.

The Chairman made the following statement:

> This completes the tour de table. Without being as pessimistic as Mr. Houtman, I must note that it has not yet been possible to reach a consensus on all aspects of this financing package, and this worries me considerably. Many countries have still not confirmed their contributions. Without these confirmations and additional pledges to narrow the financing gap, the condition for going ahead with gold sales of up to 14 million ounces will not be fulfilled.
>
> We must settle this issue before the meeting of the Interim Committee. We cannot endorse the enhancement of the HIPC Initiative without reaching agreement on financing; but even without the enhancement, within a few months, the Fund will no longer be able to make further commitments under the HIPC Initiative. As you know, we need grant contributions to meet the front-loaded financing requirements of the HIPC Initiative. I therefore urge every one of you to make all efforts to mobilize the required pledges or to secure the expected confirmations.
>
> We have very little time left, and we must now move the focus from the people preparing the speeches of the ministers, to those that can actually make a financial pledge. We will all certainly have to work hard on this tomorrow and over the weekend. We need to be able to meet shortly before the Interim Committee to finalize the package. I urge you all to avoid placing in doubt the strength of the link of the contributions with the SCA-2.
>
> I suggest that we resume, and hopefully, complete, our discussion on Monday morning. Tomorrow, the deputies will be here. We could take advantage of their presence to secure additional pledges. I propose proceeding in a kind of "confessional" format, where staff would be available in a room near the formal meeting room to meet with heads of delegations discreetly and take note of confirmations and additional of pledges. I will inform Sir Nigel of this arrangement.

2. PROGRESS IN STRENGTHENING ARCHITECTURE OF INTERNATIONAL FINANCIAL SYSTEM—DRAFT REPORT OF MANAGING DIRECTOR TO INTERIM COMMITTEE

The Executive Directors considered a first draft of the report of the Managing Director to the Interim Committee on progress in strengthening the architecture of the international financial system (SM/99/229, 9/14/99), together with a statement by the Managing Director (BUFF/99/116, 9/14/99).

The Managing Director made the following statement:

This report contains a comprehensive survey of the Fund's progress in strengthening the international financial system. I would like to highlight a few key issues.

The work on "architecture" has entered a new phase. There are fewer announcements of new initiatives, but greater focus on the specification and implementation of existing ones. This shift in emphasis is expected and entirely appropriate. Much of the work is highly complex and resource-intensive for national authorities, as well as for the Fund and other international institutions and fora, and it is essential that the momentum be maintained to carry the work through to fruition. As some elements will take some time to implement fully, regular reports to the Interim Committee are useful to help ensure that the progress in carrying out the requests of the Committee is monitored.

A few examples illustrate the extent of progress so far, including in areas that I suggested were priorities in my statement for the last Interim Committee meeting.

Transparency, Standards and Fund Surveillance

Many national authorities (45 at latest count) have indicated a willingness to participate in the pilot program for release of Article IV staff reports, which is now well underway. Moreover, 80 percent or more of member countries now agree to the release of program documentation and Executive Board assessments of Article IV consultations.

Countries are making progress in adhering to the standards developed in the Fund's core areas, although more progress is required in the period ahead.

The SDDS continues to gain greater prominence in both the official sector (including by the Basel Committee in its discussions on the Capital Accord) and by the private sector (including in investment house newsletters and analysis). All subscribers should adhere to their commitments under the strengthened SDDS, notably to join those who have already begun to implement the strengthened standard on reserves. The next stage is the strengthening of external debt data. In most countries, greater coordination of agencies within the country would enhance the efficiency of the data provision process.

Countries should be encouraged to implement the Code of Good Practices on Fiscal Transparency and, now that it has been finalized, the Code of Good Practices on Transparency in Monetary and Financial Policies.

The Executive Board has discussed again, in the context of further case studies, how to develop the proposal for reports on transparency or, more generally, on progress in implementing standards. In the year ahead, particular focus will be given to ways to bring other standard-setting institutions, including the World Bank, more fully into the process of monitoring standards beyond the Fund's core areas. The World Bank has agreed to experiment with the joint preparation of reports.

National authorities and international institutions will need to do more to encourage the development, adoption, and implementation of relevant internationally recognized standards applied to the private sector.

Helpful evaluations of the Fund's surveillance and research activities have been concluded, and we will over the coming months be distilling the lessons they hold for these activities.

Strengthening Financial Systems

Fund-Bank collaboration on financial sector work has intensified, including through regular meetings of the Financial Sector Liaison Committee (FSLC). The joint Financial Sector Assessment Program (FSAP), having been agreed in concept, is now moving to operational reality. The Fund and the Bank are in the process of undertaking several financial sector assessments, and progress will be reviewed.

National authorities are intensifying their assessments of financial systems, helped by the Fund and others, and aligning national practices with international principles. A new methodology has been developed for assessments of adherence to the Basel Core Principles (with 24 countries so far assessed). Moreover, the international community will need to respond to the consultative document on revising the Basel Capital Accord. This is a very full agenda, and crucial to the efforts to reduce vulnerabilities.

The Financial Stability Forum (FSF) has begun its work, and the Interim Committee will be hearing from the Chairman of the FSF on progress, including work on possible sources of vulnerability from the activities of offshore centers, highly leveraged institutions (HLIs), and from short-term capital flows. From these endeavors, we expect recommendations early next year, including for the disclosure of information by the private sector.

Involving the Private Sector in Forestalling and Resolving Crises

Further progress has been gained in recent months in better identifying the sources of risk in country exposure and in considering possible preventative and ex ante measures, many of which have been put forward earlier.

Much practical experience has also been gained since the last Interim Committee meeting in effectively involving the private sector in specific country cases. The complexity and variety of country cases have highlighted many conceptual and practical issues that will need to be addressed in developing a framework in which private sector involvement can be considered. I expect this to be a major focus of our efforts in the months ahead.

In other areas of reform previously identified, more discussion is needed before comprehensive proposals can be agreed. Such areas include capital account issues—the role of capital controls and possible amendment of the Articles of Agreement to provide for the liberalization of capital movements—and other systemic issues, including the implications of recent crises for the appropriateness of exchange rate regimes. Analysis and discussions on these topics have been an important focus for the Fund in recent months and will continue to be in the period ahead.

Discussion is ongoing with potential users of the Fund's Contingent Credit Line (CCL).

One systemic issue that I highlighted in April—the need to reform the ESAF, as well as to secure the full financing for the ESAF and the Fund's participation in the HIPC Initiative—is addressed in another report to the Interim Committee. There is no doubt, however, that the successful integration of a larger number of developing countries into the global financial system will depend on the correction of unstable and unsustainable debt structures of the poorer countries.

The Fund has a very busy agenda on architecture issues, and will continue to be fully engaged in implementing what has already been suggested. The same is true for national authorities, other international institutions and fora, and for the private sector, and we must ensure that adequate resources are devoted to these efforts. The recent return of a degree of calm in markets and recovery in the crises countries should not be permitted to cause the agenda to languish. Reform of the international financial system must remain a top priority if we are to lessen the risks of a recurrence of recent financial crises.

The staff representative from the Policy Development and Review Department reiterated that the report was still a work in progress. The paper would be revised in light of the current discussion and would be edited to make it more concise. The revised draft would also account for the Board discussions set for the near future, together with any developments between the current meeting and the beginning of the following week.

It was intended that two documents would be circulated to the Interim Committee, the staff representative continued. The first would be the Managing Director's report, together with the statement that had been issued for the current meeting. That combined document would be published at the time of the Interim Committee meeting. The second document, which would not be discussed at the current meeting, would be a simple collation of the summings up of the Board's various architecture discussions since the Spring meetings.

Mr. Kelkar suggested that the section on page 2, dealing with the issue of transparency, might include an added bullet point on the need for technical assistance in many developing countries. He also suggested that a reference be included on the application of transparency, standards, and surveillance principles to the private sector as well as the public sector.

The Acting Chairman said he agreed those items should be included.

Mr. Milleron said that he agreed with Mr. Kelkar on the need to apply the principle of transparency to the private sector.

Mr. Kelkar observed that, in page 10, a bullet point referred to the use of temporary controls on short-term capital inflows. In the case of India, and perhaps for other risk-averse countries, the authorities intended to maintain capital controls over a somewhat longer time frame than suggested in the draft report. A number of Fund studies had found that currency and financial crises had significant effects on the real economy, sometimes of the order of 5-10 percent of GDP. In India, that type of hazard had considerable social and political implications. While accepting the ultimate goal of capital account liberalization, the Indian authorities also viewed economic security as an important policy objective, and so they considered that the maintenance of controls on short-term capital flows was sometimes warranted. He suggested that such considerations be included in the draft report, perhaps as an additional bullet point.

The Chairman pointed out that the finalized report would aim to provide tentative conclusions on issues that were still under consideration. He acknowledged Mr. Kelkar's point, but urged Directors to resist the temptation to add items that could not yet be considered as conclusions of the Board.

Mr. Donecker remarked that his authorities had been particularly impressed with the section at the end of the draft report, which provided a survey of the Fund' progress in improving the international financial architecture. However, he was concerned that such a comprehensive and wide-ranging review might prevent the Interim Committee from focusing on those issues that were relatively urgent. He also wondered, given the importance of the subject matter, whether the report to the Interim Committee should have been from the Board, rather than from the Managing Director. There was little that could be done presently to alter procedures, given current time constraints. But for the next Spring meetings, perhaps the Board could report to the Interim Committee on its own behalf. That would require setting aside sufficient time to allow the Directors to discuss the report in greater detail.

The Chairman said that he agreed with Mr. Donecker's suggestion, particularly as the report for the following Spring meetings would probably focus more on practical issues of implementation. He was also prepared to have the current report considered as a report from the Board, if Directors felt that was appropriate.

Mr. Milleron remarked that the box on exchange rate regimes had been well-written. However, given the Interim Committee's agenda, he wondered whether the agenda item on the international financial architecture was the best place to raise the fact that the Board had not been able to reach any conclusions on the appropriateness of different exchange rate regimes.

The Chairman pointed out that he would report on the exchange regime issue at a meeting with the Interim Committee Deputies in the very near future. The report on the international financial architecture would simply note that the topic was still under consideration by the Board, and that they would discuss the issue, as a matter of priority, in October 1999.

Mr. Milleron proposed that, in paragraph 3, the language on the exchange regime issue should be amended, as it seemed unduly negative.

Mr. Takeda remarked that the draft report seemed to avoid raising some relatively controversial issues. It was important, however, to inform the Interim Committee that, on some topics, the Board was divided. For instance, on international standards and surveillance, there had been no mention of the issue of the Fund's core and non-core responsibilities. Paragraph 18, which referred to Fund-Bank discussions on an appropriate division of labor, should also mention that there had been no consensus on the Board as to the appropriate scope of work for the Fund.

The draft report had also omitted any reference to the Fund's operating procedures, Mr. Takeda continued. The Interim Committee had asked the Fund to look into that issue at the previous Spring meetings, and his chair had often called for greater Board involvement in program design. There had also been a number of initiatives by the Board Agenda and Procedures Committee to improve the quality of Board discussions. He suggested that a paragraph on those issues be added on page 13, before the paragraph on transforming the Interim Committee.

Mr. Chelsky said that he agreed with Mr. Takeda's suggestions.

Mr. Takeda commented that the draft report made no mention of the review of Fund-supported programs. However, during the June 1999 discussion on the work program, many Directors had agreed on the need to reconsider the design of such programs, particularly their monetary component. Although the issue had not been discussed formally by the Board, it had arisen during program reviews for a number of Latin American and East Asian countries. For instance, some Directors had questioned the consistency of setting conditions on the authorities' net domestic asset position, on the one hand, while calling for an inflation targeting framework on the other. His chair had questioned the imposition of a net domestic asset ceiling in cases where the country faced a threat of deflation, rather than inflation. He suggested that the draft report mention the forthcoming review of Fund-supported programs, perhaps in paragraph 13, which dealt with Fund surveillance activity.

Mr. Taylor said that he agreed with Mr. Takeda's sentiments.

The Chairman pointed out that a report on the international financial architecture could not be expected to cover the entire range of Fund activities. However, he agreed that it was important to mention the Fund's review of its surveillance efforts. As for the institution's operating procedures, the staff had noted Mr. Takeda's comments, and were working to ensure that the institution's day-to-day activities satisfied the mandates that had been handed down.

Mr. Daïri said that he agreed with Mr. Takeda's comments on the Board's lack of consensus as to the core and non-core areas of responsibility for the Fund. Further, he suggested that the section on the Fund's progress in promoting standards include a reference to the voluntary nature of those standards. The Board had often endorsed the principle that a country's subscription to a standard should be voluntary, and that this should be taken into account when assessing that country's obligations or commitments. As for the exchange regime issue, Box 5 seemed to refer to a Board paper which did not yet exist. He suggested it be made clear that the box would be amended in light of the forthcoming Board discussion.

Mr. Eyzaguirre pointed out that the draft report's sections on numerous issues, particularly capital account liberalization and private sector involvement in crisis prevention, followed closely the draft summings up of Board discussions. That was appropriate, but it should be kept in mind that those summings up had been the subject of considerable debate. As for the exchange regime issue, he suggested that Box 5 be removed altogether, as the Board had not yet had an opportunity to discuss the topic.

Mr. Taylor supported the proposal to remove Box 5.

The Chairman said that he agreed that the box should be removed.

Mr. Portugal noted that paragraph 5 referred to the topic of social sector issues in Fund-supported programs and policies. However, the summing up of the Board's discussion of that topic had not yet been circulated. The paragraph further mentioned that the Fund and the Bank had developed joint proposals that would set all their lending to low-income countries within the context of comprehensive poverty reductions strategies. He suggested that, to be more precise, the paragraph should instead refer to ESAF and IDA countries.

Mr. Carstens and Mr. Taylor said that they supported Mr. Portugal's suggestion.

Mr. Portgual suggested that, notwithstanding the footnote at the bottom of page 3, it might be more appropriate for the third bullet point to retain the language of the June 3 Board decision. That language stated that "it will be presumed that the relevant Letters of Intent, Memoranda of Economic and Financial Policies, and Policy Framework Papers, if any, will be published."

As for the issues where the Board had not yet reached a firm conclusion, the opinions of Directors were more starkly divided than was apparent in the language of the draft report, Mr. Portugal continued. For example, on the topic of capital controls, several Directors had considered that measurement of the net benefits of capital controls was difficult, and that such controls had to be judged on a case-by-case basis. Also, although the draft report noted that temporary controls on short-term inflows might substitute partially for effective prudential regulation, a number of Directors had mentioned that, even with full prudential regulation and appropriate policies, capital controls might still be required. As for the issue of private sector involvement, the impression from the draft report was that the conclusions on page 12 had been agreed by the entire Board. However, from the summing up of the Board's discussion, some Directors had held differing, or nuanced, views.

Paragraph 32 referred to a draft resolution for the Interim Committee, prepared by the Board, on the transformation of the Interim Committee into the International Monetary and Financial Committee, Mr. Portugal observed. However, as that resolution had not yet been discussed by the Board, perhaps the reference might be removed, or at least placed in brackets to indicate that Directors had not yet arrived at a decision.

The Chairman pointed out the footnote stating that the reference would be revised after the relevant Board paper had been cleared and issued. Similarly, although the summing up of the Board's discussion of capital account liberalization had not yet been finalized, once the language of the summing up had been agreed, the corresponding section in the draft report would be amended accordingly. However, it was not realistic for the draft report to include every item and nuance of all the summings up. Those summings up would be issued separately. The point of the report was to outline the Fund's progress, and to provide background on some of the thinking behind the institution's decisions.

Mr. Portugal said he agreed that the draft report should not reflect every detail of the relevant summings up. However, there were two important and controversial issues—capital account liberalization and private sector involvement—where the draft report had not adequately captured the diversity of views held by the Board. As a final comment, he supported Mr. Takeda's remarks on the need to outline the Board's differences as to the Fund's core and non-core areas of responsibility.

Ms. Lissakers said she agreed that the section on private sector involvement had not reflected adequately the range of Board opinions. Moreover, the section on capital account liberalization had not distinguished sufficiently between: the pace of liberalization; the temporary resort to controls in times of crisis; and the selective use of controls to manage short-term capital flows. Furthermore, the report had made no distinction between capital inflows and outflows. Taken overall, the report seemed to suggest that the Fund was looking for a better way of implementing capital controls, and that was not a position widely held by the Board.

On the issue of capital account liberalization, both the draft report and the summing up had failed to capture the nuances of the Board's discussion, Ms. Lissakers continued. A review of individual country experiences demonstrated that there had been few instances in which capital controls had been beneficial. Chile, China, and India had been cases of gradual, broad-based liberalization. And in the case of Malaysia, it was difficult to conclude whether capital controls had been beneficial or not. In all other cases, the consequences of capital controls had been somewhat unfortunate. Those points had been made during the Board discussion, but had not been included in the summing up.

On the issue of private sector involvement, the overall thrust of the draft report favored a somewhat interventionist role for the Fund, Ms. Lissakers remarked. The report suggested that the Fund would involve itself directly in the development of creditor committees, whereas a key theme of the Board's discussion had been that such officially-sanctioned committees might not be useful. The report also raised the possibility of a supporting role of the official sector for contingent credit lines. However, the Board had not concluded that such a move was necessary.

In paragraph 29, the draft report stated that "in cases in which the catalytic effect [of the Fund] does not appear to be working or in which the member does not appear to have reasonable prospects for regaining market access, there would need to be concerted mechanisms for securing private sector involvement," Ms. Lissakers observed. During the Board discussion, however, the consensus view of Directors had been simply that consideration would need to be given to a concerted approach, which was not the same as agreement on the need for concrete mechanisms. The fourth bullet point of paragraph 29 stated that the role of the official sector would be limited, but that claim did not seem consistent with the preceding and subsequent bullet points. The point on the possible use of escrow accounts was well taken, but the first sentence of that bullet point was unfortunate, as it stated that "mechanisms to protect creditor's interests while creditor committees negotiate with the debtor should be considered." Such a mechanism already existed in the form of the rule of law and the enforcement of binding contracts. She suggested that the sentence should be redrafted, as Directors had not yet agreed that the Fund should put itself in the position of overruling such contracts.

One of the bullet points of paragraph 30 stated that further consideration needed to be given to adopting a mechanism that could allow the international community to sanction a temporary stay on creditor litigation, Ms. Lissakers noted. However, Directors had not agreed on that point. The summing up simply mentioned that several Directors had been in favor of further consideration of the issue. Furthermore, on the final bullet point of that paragraph, the Board had made the point that no particular class of debt should be exempt or privileged, whereas the bullet point seemed to focus on bonds only. The wording of that bullet also seemed somewhat broad, as it could be seen to imply that the Fund would determine the detailed structure of a country's financing package—determining, in effect, the country's relations with it creditors. The Board, however, had simply made the point that the Fund needed a better analytic basis for determining whether a country's financial position was sustainable. As a final comment, in the section on transparency, standards, and surveillance, it was important to emphasize that the Fund would be only one of a number of players that would help develop and implement standards.

The Chairman remarked that, although the Fund was only one of many players, it had been perhaps the foremost institution in advancing the adoption of standards. As for Ms. Lissakers's other remarks, there was always the risk that, with a compact and concise document such as the draft report, different readers would arrive at different interpretations. The alternative would be for the staff to prepare either an extremely general, and basically meaningless report, or to prepare a longer, precise, and perhaps unreadable report. However, given the shortage of time, he would instruct the staff to remove any references that could possibly give rise to misunderstandings. The result might be a document that was somewhat vague as to the Fund's progress, but perhaps Ministers might help by responding with clear guidelines.

Mr. Collins commented that some of the items in paragraph 11 had come as a surprise. Similarly, the paragraph on contingent credit lines (CCL) stated that the staff were discussing with several countries the possibility of their applying for CCLs. He did not recall that the Board had been made aware of such discussions.

The Chairman pointed out that a number of countries had inquired about the merits of CCLs, but that those inquiries were at a very preliminary stage. There had been no discussion on amounts, conditions, or other details, and so it had not seemed appropriate to raise the issue before the Board.

Mr. Collins commented that, if such discussions were sufficiently significant to feature in a report to the Interim Committee, they were sufficiently significant to warrant a brief presentation to the Board. He did not object to the reference being included, but, as a matter of procedure, he felt that some way should have been found to inform Directors formally.

On the issue of private sector involvement, the report seemed to have placed too great an emphasis on creditor committees, which had not been a central feature of the Board's discussion, Mr. Collins continued. Also, in the section on CCLs, the meaning of the sentence at the end of the first bullet point, which stated, "there is now a need to assess the possible supporting role of the official sector, if any," was somewhat unclear. He had a number of further drafting suggestions for the section on private sector involvement, and would forward them bilaterally to the staff.

Mr. Taylor said that he had also found the CCL sentence somewhat puzzling.

Mr. Collins commented that, in the reference to the Fund's external evaluation exercises, there had been no mention of which activities had been covered. Given the amount of the Board's time that had been devoted to those evaluations, he suggested that the report provide more detail on that topic. Also, in paragraph 19, which dealt with the Fund's outreach efforts in assessing its approach on the promotion of standards, it might be made explicit that outreach was a two-way process. The Fund was not only interested in gauging the private sector's opinions, but was also in ensuring that the private sector understood what the Fund was doing.

Mr. Faini said that he shared Mr. Takeda's concern that, in attempting to present an overall summary of the Board's views, the draft report had glossed over a number of important differences of opinion. On the issue of private sector involvement, the Board had not yet been able to come up with a satisfactory, fully-defined strategy. The draft report, referring the reader to Box 4, did mention some recent difficulties in securing private sector involvement. However, that box did not provide any detail on the actual problems that had been encountered. For example, most of the countries that had been the subject of the Fund's efforts had not been able to raise additional funds at feasible interest rates. The report should highlight such details, as it would indicate the problems that would be addressed by the Board in the future. Also, one area of broad agreement had been that no specific group of creditors should be unduly penalized or favored. That sentiment had not been reflected adequately in the draft report.

On the distinction of core versus non-core areas of responsibility, he agreed with Mr. Takeda that the definition of non-core areas was somewhat difficult, Mr. Faini said. In addition, further elaboration was needed on the "shared ownership" approach.

Mr. Chelsky noted that the top of page 12 stated that "the following conclusions were reached by the Executive Board." The Board's discussions on private sector involvement had not yet ended, so he suggested that the draft report refer to "preliminary conclusions" instead. Also, the meaning of the final sentence of page 11, which referred to the need for concerted mechanisms for private sector involvement, was unclear. He suggested that the phrase "by improving the incentives for voluntary agreements" should be added. That had been an important addition to the summing up of the discussion. As for the principle that no group of creditors should be favored, it should be made clear that the Fund, as an institution, was not responsible for policing equality of treatment across creditors.

Turning to Ms. Lissakers's remarks, although there had been no clear majority of Directors in favor of stays on creditor litigation, the matter was still under active consideration, Mr. Chelsky continued. He agreed that it might be appropriate to remove references to issues that had little hope of attracting support, but that was not the case for this particular issue. However, it might be more appropriate, in the relevant bullet point, to state that the Board required guidance from the Interim Committee.

Ms. Lissakers stressed that the current language stated that "Further consideration is to be given to a mechanism…," with the implication that this had been a decision of the Board. She was unaware of any such decision. Instead, it was her understanding that only a few Directors had suggested that the matter be considered further. She agreed with Mr. Chelsky's suggestion about "preliminary conclusions," but suggested that the bullet points in the section should only refer to issues that had attracted a consensus, rather than those that had only gathered limited support.

The Chairman noted that the draft report would be revised to more accurately reflect the language of the summing up.

Mr. Donecker recalled that, during the Board discussion on stays, his litigation chair had encouraged the Chairman to find a solution that left the issue open, as it might prove to be a useful threat to the private sector. His understanding of the discussion was that, although some Directors had asked for the matter to be dropped, the majority had felt that stays on litigation might prove to be a useful option, and that the issue warranted further consideration. Moreover, the Fund was providing crucial guidance to other fora on the issue of private sector involvement, so it was important to mention various possible alternatives, even if the Board, or the Interim Committee, later decided against a particular measure.

Ms. Lissakers raised the distinction between a standstill on payments and a stay on litigation. The two measures had different implications, but tended to be confused with one another. The fact remained that there had been no consensus on the latter measure. However, there had been some sympathy, both by the G-7 and by the Board, with the idea of a standstill on payments, and the possibility of lending into arrears.

The Chairman commented that further guidance from the Interim Committee seemed necessary. The relevant passage in the draft report would be reworded to highlight the distinction raised by Ms. Lissakers, and to stress that there was a diverse range of views on the issue.

Mr. Yakusha remarked that the Board had not yet agreed on the four cases outlined in Box 4. It was inappropriate to assert that the results in those four countries had been poor, as some countries were still at a very early stage. By including those countries in such a list, the Fund might concentrate the attention of the markets on possible problems in the future, impacting their access to further funding. He also noted that some of the language in Box 4 might increase the negotiating position of creditors, and suggested that the box be removed.

Mr. Chelsky commented that Box 4 was too specific. In the case of Ukraine, too much attention had been given to the 80 percent refinancing target. Although that had been a notional figure discussed by the Board, it might not be appropriate for inclusion in a public statement—markets might focus unduly on the 80 percent figure, whereas such targets needed to be considered on a case-by-case basis.

Mr. Faini remarked that, if all reference to specific countries were dropped from the box, it might still be useful to outline the problems that had arisen when trying to involve the private sector.

The Chairman pointed out that, with the issue of private sector involvement, the report would assert that the Fund was dealing with a difficult problem, and was learning from experience. The claim would be less convincing if the Fund was unwilling to share that experience with Ministers. After some further discussion, he noted that the staff would try to retain the box, but they would contact the relevant Directors to arrive at more agreeable language—dealing with Directors' concerns while still outlining the thrust of each country's experience.

Mr. Carstens commented that, in the section on Ecuador in Box 4, the phrase "..but no reference was made to the need for a comprehensive approach to securing private sector involvement" was not helpful. Also, the tone of the first bullet point on page 13 was somewhat negative in stating, "…most Directors considered that it did not seem practical at this stage to lay down specific rules that would prove to be robust." It was his understanding that most Directors had agreed broadly with the private sector participation principles that had been proposed at the G-7 meeting in Cologne. He suggested, therefore, that the bullet mention a significant base of agreement, from which Directors would move forward.

Mr. Taylor said that he supported Mr. Carstens's suggestion.

Mr. Collins suggested that the sentence in Box 4, which stated that "the IMF specified the magnitude of the refinancing package for the ING bonds as equivalent to 80 percent of the maturing obligation…but was not able (within the context of a cooperative approach) to also specify the price of the transaction," should be redrafted. The current wording implied that the Fund could, within a non-cooperative context, specify both the quantity and price of the transaction, if it chose to do so.

Mr. Carstens noted that the first bullet point on page 11 claimed that there was a need to assess the supporting role of the public sector in promoting contingent credit lines. However, during the Board's discussions, a number of Directors had also raised the potential role of multinational corporations. He suggested that the Interim Committee might want to discuss that aspect.

Mr. Taylor remarked that paragraph 8 of the draft report gave the impression that the Board was in favor of more publication of Fund documents. That might have been the view of the majority, but a significant minority were concerned about the possible implications of increased transparency for the Fund's relations with its members.

As for the issue of capital account liberalization, the history of capital controls had included relatively few examples of success, Mr. Taylor continued. In fact, it might be argued that capital controls, to the extent that they were substituted for necessary fundamental reforms, were often damaging. He supported Ms. Lissakers's sentiments on that issue, and suggested that such concerns should be reflected in the report. Moreover, Ms. Lissakers's distinction between standstills on payments versus stays on litigation was important, and should also be noted.

Although he agreed with Mr. Collins that the issue of creditor committees had received a disproportionate amount of attention, the report's overall tone on that topic was balanced and appropriate, Mr. Taylor remarked. Such a system would benefit from the presence of an expert, neutral party, and the Fund was an obvious candidate.

The Acting Chairman, responding to a query from Mr. Donecker, noted that the staff would revise the draft report in light of Directors' comments during the current meeting. However, if Directors had specific drafting suggestions, it might be more useful if they were to contact the staff bilaterally. At a subsequent meeting, the Board would have an opportunity to consider the revised version in more detail.

3. INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES—PROGRESS REPORT TO INTERIM AND DEVELOPMENT COMMITTEES

The Executive Directors considered a draft progress report to the Interim and Development Committees on the Initiative for Heavily Indebted Poor Countries, prepared jointly by the staffs of the Fund and the World Bank (EBS/99/178, 9/15/99).

The Acting Chairman noted that the World Bank Board at that time was meeting on the same subject as the Fund Board.

Mr. Portugal expressed concern that the paper did not reflect the fact that a substantial number of Board members had agreed with many of the proposals only on the condition that they are applied exclusively in the context of HIPC Initiative countries. Therefore, all references in the paper should be to low-income countries in the HIPC Initiative context, rather than simply to all low-income countries. Moreover, paragraph 18 of the conclusion should clarify that the implementation of the poverty reduction strategy papers framework would have important and far-reaching implications for the operations of the Bank and the Fund "in HIPC Initiative countries." Similarly, a reference to poor countries in paragraph 19 should instead say HIPC Initiative countries.

Mr. Faini noted that the first paragraph underscored the importance of retaining the basic elements that had guided the HIPC Initiative, including the focus on sustainable development. However, the use of the phrase "sustainable development" was unfortunate because it had many meanings. The paragraph should specify that there should be an emphasis on the fact that the right policies should be in place.

On linking debt relief to poverty reduction, the paper said that the Bank Board supported the proposal that, "to the extent possible," before reaching its decision point a country would elaborate a poverty reduction strategy paper, Mr. Faini remarked. However, it was possible to be more specific when saying "to the extent possible." It had been clearly stated that, as a general rule, the PRSP should be in place at the time of the decision point, and there should be a clear commitment in that respect. The concluding remarks proposed by the Board the previous day said that there should be demonstrable implementation prior to completion point. The fact that there should be a PRSP or progress toward a PRSP had been an important point stressed by many Directors and it had been agreed that the Board should report that to the Interim Committee.

Mr. Kelmanson commented that a great deal of progress had been made in bringing the HIPC Initiative forward, which came through clearly in the progress report to the Interim Committee. Regarding the poverty reduction strategy paper, he supported the point made by Mr. Faini about specifying more clearly how and when the PRSP should be presented in terms of decision points. Nevertheless, there should be flexibility in terms of those countries that were currently close to the decision point. Poverty reduction was an essential component of the enhanced HIPC Initiative. Recent staff papers had rightly set out the need for the PRSPs to be at the heart of operationalizing that issue in the Fund and in the Bank, but that had not been made quite explicit enough in Fund programs. For example, Paragraph 5 should be amended to explicitly recognize that the new PRSPs would provide the framework for each institution's lending operations. It must be made clear that each of the institution's programs would in effect be a key part of the implementation of the poverty reduction strategy. Moreover, the staff papers rightly stressed the importance of country-specific measurable outcome and intermediate indicators that would be monitored as part of program evaluation, and that the evaluation of progress against the indicators would need to be measured in a collaborative way between the Bank and Fund. It was not the correct time to consider exactly how to do that, but one possible way would be to have some kind of a joint unit look at how developments might be taken forward in that area. That would also be another step forward in improving working relations between the Bank and the Fund.

Mr. Taylor noted that Paragraph 3 said the PRSP framework recognized that sustained poverty reduction required rapid economic growth. While he was happy to see that recognition, he felt that the need for a growth strategy was being inappropriately downplayed in relation to the poverty reduction strategy paper. Paragraph 5 said that for the Fund, ESAF lending operations would key off the PRSP, but it should be the other way around. The paper seemed to downgrade the key issue of growth, both in terms of the Fund's mission and what was important for basic poverty alleviation.

He agreed with the point made by Mr. Portugal on the need to consistently refer to HIPC countries, rather than low-income countries, Mr. Taylor remarked. Paragraph 5 appeared to say that there should be PRSPs for all ESAF cases, but it was not his recollection that the Board had agreed or how that could be accomplished.

It was important that the PRSP approach had full ownership in both the Bank and the Fund, but paragraph 6 suggested that the Bank was somewhat equivocal about the PRSP, Mr. Taylor commented. The PRSP could help the Bank's extensive activities, but Paragraph 6 appeared to represent a grudging acknowledgment of that. It was central, if the Bank and the Fund were to work well together, for the two institutions to have equal ownership of the initiative.

Paragraph 7 was acceptable, but there should be another sentence that addressed the importance of clearly stating each institution's roles and responsibilities and the importance of effective collaboration, Mr. Taylor noted.

Mr. Chelsky said that he did not share Mr. Portugal's sense of ambiguity about the group of countries at which the PRSP approach was aimed. There might be some excessive sensitivity in that regard. There were precise definitions of low-income and middle-income countries. The main question concerned the ESAF group, which included some small island economies that were technically not low-income countries. Paragraph 18 stated that the proposed enhancements to the HIPC Initiative were ambitious, and that their implementation, particularly through the elaboration of poverty reduction strategies, would have important and far-reaching implications for the operations of the Bank and the Fund. There was no need to over-circumscribe the group in question, and it seemed fairly clear that the sentence did not apply to the full membership.

Ms. Lissakers suggested that Mr. Chelsky was confusing the reference to enhancements, which had been used in the discussion to mean enhancements to the amount of debt relief that would be made available under the HIPC Initiative, with the implementation of the PRSP approach, which was a way to combine poverty reduction with debt relief, but which also had to do with strengthening the poverty reduction elements of ESAF in general and was not limited to the HIPC Initiative. That had been made clear throughout the discussion and was reflected in paragraph 5, which was why there was talk about supplanting the PFP, which was supposed to guide ESAF programs, generally, with the PRSP. She agreed with Mr. Taylor's point regarding paragraph 6, but it seemed to contradict what he had said about paragraph 5. The two institutions had to show a coherent, integrated strategy for dealing with the low-income countries, one that would guide lending by both institutions, including to HIPC Initiative countries.

Mr. Chelsky said that he had interpreted the proposed enhancements more broadly, but could discuss the issue bilaterally.

Mrs. Farid said that she agreed with Mr. Portugal's point. There was some merit in having greater clarity. Thus, the references in the paper should be streamlined to make it clear that they referred to the HIPC Initiative countries, as the discussion had focused on those countries. Paragraph 6 referred to the Bank. Thus it was not appropriate for the Board to attempt to change it. But the rest of the points dealt with the Fund, so it would be useful to clarify the countries concerned.

Ms. Lissakers agreed that paragraph 6 referred to the Bank, but one of the weaknesses in the approach of the Bank and the Fund to low-income countries had been the lack of ownership of the strategy that was supposed to guide both institutions' activities. The PRSP was meant to correct that, and Mr. Taylor was right that the formulation in paragraph 6, which was presumably drafted by the Bank, suggested that the Bank would not fully embrace the PRSP unless the Fund wanted to see the Bank embrace it. She would be interested in hearing from Mr. Portugal and the U.K. and French chairs in the Fund and the Bank whether that was an accurate reflection of the Bank's position. If it was, that should cause some concern in the Fund, as the enhanced, intensified collaboration would not start on a good note.

In paragraph 3, the formulation went too far in stressing front-loading to a higher degree than might be possible, Ms. Lissakers remarked. That might be tempered by saying something to the effect that the front-loading of the delivery of debt relief should be considered on a case-by-case basis, taking into account absorptive capacity. There were various ways that the language could be corrected to deal with that, but it was important to be careful not to create expectations that could not be met because of resource constraints.

On the PRSP, Mr. Faini had made an appropriate point on the last sentence of page 2, Ms. Lissakers said.

On paragraph 3, the first bullet on improved social services said that poverty was multidimensional and reducing it was a long-term effort that required more than the delivery of improved social services, Ms. Lissakers noted. The Fund had tried to emphasize to HIPC Initiative beneficiaries that social services were crucially important to poverty reduction. However, now the tone of the paragraph seemed to suggest that was not terribly important.

Mr. Kelmanson said that his reading of the Bank's discussions was that the Bank was equally embracing of the role of the PRSP. That was a point that did not come out appropriately in the drafting of the text, and he hoped that it could be better reflected. The U.K. chair would be bringing up that point at the Bank Board.

The staff representative from the Policy Development and Review Department said that he had attended the Bank Board's meeting and that had also been his sense of the deliberations.

Mr. Rouai said that, although there were figures in paragraph 8 regarding the share of the Bank and the Fund in the cost of the enhanced HIPC Initiative, a table should be added detailing the potential costs to all creditors. That was even more important as the Fund was asking Ministers, in paragraph 20, to offer some comment on the various financing schemes for each creditor.

Mrs. Del Cid-Bonilla said she supported the proposals made by Mr. Portugal and that made by Ms. Lissakers regarding the front-loading of debt-relief delivery. A sentence should be added at the end of paragraph 14 to say that it was important to recognize the special circumstances of some non-Paris Club bilateral creditors that were also low-income countries. That would reflect the concern that she and other Directors expressed on that issue.

Mr. Portugal said that he supported Mrs. Del Cid-Bonilla's proposal. His Minister had also raised that important issue at the past meeting of the Interim Committee.

Mr. Barro Chambrier said that paragraph 4 should not be changed. It should continue to say that "to the extent possible," the PRSP should be prepared before reaching the decision point. It was important to keep that flexibility because many countries were near to the decision point, and would not have time to elaborate a PRSP. On paragraph 2, the reference to the "probability" of a permanent exit should be deleted. Directors had been more ambitious during the discussion. The purpose was to have a permanent exit, and simply stating that there was a "probability" could introduce some doubt on what the Board was trying to achieve.

The point made by Mr. Taylor on the need to define clearly the responsibilities of the Bank and Fund was important and he supported it, Mr. Barro Chambrier said.

On the uniformity of language with regard to HIPC Initiative countries, it would be more appropriate to refer to low-income countries rather than poor countries, Mr. Barro Chambrier remarked.

Mr. Hendrick said that he supported Mrs. Del Cid-Bonilla's request for an additional sentence in paragraph 14 and that agreed with Mr. Portugal's views. Regarding the second item of paragraph 20, did the reference to the Fund proposal for the financing of the share of the cost of the enhanced HIPC Initiative refer to the proposal presented by the Managing Director in his statement or to the one presented in the previous staff paper?

Mr. Morais commented that the second bullet point on Page 2 included an implicit suggestion that the completion point would be reached solely through front-loading reform, and that the idea of sequencing was somewhat lost. There should be some redrafting to capture that point made by some Directors during the discussion.

He supported Mr. Barro Chambrier's comment on the timing for the decision point, Mr. Morais said. Some Directors had made the point that the limited capacity of some countries that would likely reach the decision point soon should not be strained. The decision point should also not be delayed, because of the lack of a poverty reduction strategy paper.

While paragraph 5 captured the idea of growth, it was not stressed enough, Mr. Morais commented. The Managing Director had made the point that one of the major objectives of the new facility, as the successor to the ESAF, was to promote growth. Therefore, the paragraph could say that growth was one of the fundamental objectives of the new facility.

Mr. Rouai proposed that paragraph 21 be dropped, as it was inconsistent with the last sentence in paragraph 1. Paragraph 1 stressed that the financing of the enhanced HIPC Initiative needed to be secured before proceeding with its implementation, while paragraph 21 said that the Fund would report further on progress on finding funding, along with the implementation of the Initiative.

The staff representative from the Policy Development and Review Department said the staff envisioned that the financing package would be put together at an upcoming meeting of the Board. Thus, there would have to be another draft of the paper that filled in the details on that package, just as the Bank was endeavoring to complete its efforts in that area.

Paragraph 21 had been drafted in the expectation that the financing would be complete, the staff representative explained. The question put to the Ministers in paragraph 25 was intended to seek confirmation that financing would be available so that the enhancements could be put in place.

Ms. Lissakers said that she did not understand the suggestion made by Mrs. Del Cid-Bonilla about paragraph 14.

Mrs. Del Cid-Bonilla explained that she proposed to add a sentence to the end of the paragraph recognizing that some non-Paris Club bilateral creditors of HIPC countries were also low-income countries and might not be able to contribute their full share to the financing of the enhanced HIPC Initiative. Directors would recall that, in the case of Nicaragua's debt relief, which the Board had discussed the day before, the special circumstances of some low-income bilateral central American creditors and regional organizations had been recognized.

It was a concern how poor and low-income countries would be able to comply with the guidelines of Paris Club creditors, Mrs. Del Cid-Bonilla said.

The Acting Chairman asked the staff how the changes to the paper would be coordinated with the World Bank.

The staff representative from the Policy Development and Review Department replied that the staff of the two institutions would get together to make changes to the draft report and circulate another version in the following week. However, the final version would have to wait until further progress was made on the financing side.

The definition of low income, HIPC, and poor countries was fundamental to redrafting the paper, the staff representative remarked. HIPC countries by definition were highly indebted poor countries. They were a subset of those countries that were ESAF-eligible, which was the definition of low income countries. That definition was in the ESAF instrument, and it came from the definition for IDA eligibility, although the Fund Board had retained its prerogative to define it separately. Therefore, that was the definition that the staff had in mind when the term "low income was used in this document." In the papers that were put to the Board, the poverty reduction strategy paper would replace the PFP, and thus would be an instrument for all low income countries, extending therefore beyond HIPC Initiative cases.

Mr. Portugal suggested that a document entitled the HIPC Initiative Progress Report should not include topics that were not related to HIPC Initiative countries. The staff should recognize the views expressed by a number of Executive Directors in that regard.

Mr. Faini noted that the difficulty arose out of the discussion, which had combined issues on the HIPC Initiative and on ESAF reform. Like Mr. Portugal, he wanted to have an agreement that reflected the discussion. Given that the document was a progress report of both staffs to the Interim Committee and Development Committee, it had to focus on HIPC Initiative countries only, and should not focus on ESAF programs. However, that would provide only a limited vision of what had been discussed in the Board, which was not focused solely on HIPC Initiative countries. The Board had a much broader discussion and there had been differing views, including in particular with regard to whether poverty reduction strategies should be required of all low-income countries, in addition to HIPC Initiative countries. Would there be another draft report to the Interim Committee that would focus exclusively on the reform and the adaptation of ESAF? If so, that would be the place to discuss those issues.

Ms. Lissakers commented that the ESAF and the HIPC Initiative had to some extent been combined from the beginning because the ESAF-HIPC Trust was a single instrument, in terms of the financing pot, even though some Directors were uncomfortable with that. ESAF was the instrument by which the Fund provided financing to HIPC cases and policy conditionality for the HIPC Initiative. There was no HIPC conditionality per se, it was conditionality under ESAF for HIPC cases.

There had been a parallel debate about reforming the ESAF along with enhancing the HIPC Initiative, in order to make both the Bank and Fund more effective in supporting poverty reduction in the countries they lent to, Ms. Lissakers remarked. It had never been said that the reforms should be limited to debt relief cases. It was true that the title of the report was a misnomer, and the Board was left with the dilemma of what to do with the other part of the debate that it had been engaged in for some time and where there had been considerable consensus. The simplest way to do that was to change the title, although at least the material should be included in the report. Any report to the Ministers should refer to the discussion on ESAF reform and the centrality of the poverty reduction strategy changing the framework under which the Bank and Fund would lend to low-income countries, regardless of whether they were part of the HIPC Initiative.

Mr. Portugal said that perhaps, instead of referring to low-income countries, the report could talk about ESAF and HIPC countries. That would cover what Ms. Lissakers had suggested, and would solve the problem.

The staff representative from the Policy Development and Review Department said that the matter should be discussed with the Bank staff, but he would propose something slightly different, which should meet Mr. Portugal's wishes. The phrase could be "ESAF and IDA-eligible countries," which would effectively meet the definition of low income and span both sets of institutions.

Mr. Portugal said that he was going to propose the same thing for the Bank. It could say "ESAF, IDA, and HIPC countries."

The staff representative from the Policy Development and Review Department noted that employing the term "HIPC," in that context, was somewhat redundant, as it was a subset of IDA, although there was no harm in including it.

Mr. Kelmanson said that he supported the points made by Ms. Lissakers on the need not to lose the flavor of some of the discussions that the Board had with respect to reforming the ESAF program.

Mr. Wei said that he preferred the first proposal by Mr. Portugal to use the phrase "ESAF-HIPC countries." If the staff's suggestion of "ESAF and IDA-eligible member countries" was chosen, China should be excluded, as China had announced that it would not use IDA funds.

The staff representative from the Policy Development and Review Department said that it would be difficult to accommodate Mr. Wei's point. Moreover, it should be noted that in paragraph 6, which said that the Bank's detailed proposal for a poverty-oriented approach involved low-income countries, including HIPC Initiative countries, the staff could not change that to ESAF and HIPC countries, as the ESAF was a Fund instrument, and not a

Bank instrument. That was why there was a need for Bank terminology such as IDA. The issue could be discussed bilaterally between Messrs. Portugal and Wei and the staff at the Fund and the Bank.

Mr. Portugal suggested that the paragraph could say “countries using IDA resources, including HIPC,” which would cover Mr. Wei’s point about China no longer using IDA resources.

The Acting Chairman remarked that the matter of the specific references to low-income countries and the issues raised with regard to paragraph 6 would have to be discussed with the staff of the Bank; and the Fund staff would take into account the other comments made on the report.

Mr. Chelsky observed that there were some inconsistencies in the description of the Fund’s objectives on capital account liberalization. In some instances, the Fund’s role was stated as facilitating capital account liberalization. In others, it was to facilitate orderly capital account liberalization. It was his understanding that Directors had agreed that the appropriate goal was to facilitate “sustainable and orderly capital account liberalization.” He suggested that this phrase be employed consistently throughout the draft report and the Managing Director’s statement. Also, on page 4, the first bullet point mentioned that the Board would develop a system of evaluations. He suggested the report make clear that those evaluations would be independent.

Mr. Eyzaguirre said that he supported the thrust of Mr. Takeda’s comments, as well as Mr. Portugal’s suggestions for paragraph 5. On the issue of capital account liberalization, the summing up of the Board discussion had mentioned explicitly the need for prudential regulation in both capital-exporting and capital-importing countries. That had been an important point. Also, the fifth bullet point on page 10 was perhaps too dismissive of the potential role for capital controls in prudential regulation. Such controls could influence the exposure of the corporate sector, and in circumstances where an economy was subject to exuberant inflows, capital controls could be a useful macroeconomic prudential instrument, helping to manage overall liquidity risk and assure a more healthy external debt profile.

Mr. Yakusha said that he agreed that the report should provide somewhat more detail on the Board’s discussion on surveillance, as well as on the range of views concerning the Fund’s core and non-core areas of responsibility. He considered that Box 4 should be dropped in its entirety, or rewritten without identifying any particular countries or private sector agencies.

Ms. Lissakers stated that she agreed with Mr. Yakusha’s sentiments concerning the surveillance issue. The Board had been instructed by the Interim Committee to review the Fund’s surveillance activities. It had conducted a detailed and comprehensive evaluation and had debated the results thoroughly. However, the draft report did not appear to have captured the seriousness of that discussion, or the range of views that had been expressed.

Mr. Wei said that he associated himself with Mr. Daïri's comments on the voluntary nature of members' subscription to various standards. He also supported Mr. Yakusha's suggestion for Box 4. On the issue of capital account liberalization, he considered that the first bullet point might be more balanced if it also noted that prudential regulation alone could not eliminate all the risks associated with volatile capital flows.

The staff representative from the Policy Development and Review Department, responding to a query from Mr. Rouai, pointed out that paragraphs 14-19 related to the process of assessing members' compliance with various standards, rather than the actual development of those standards. The two elements had been treated separately in Board discussions, and the staff considered the distinction to be useful. However, Directors' comments on the need for a more detailed treatment of the surveillance issue was well taken.

Mr. Donecker remarked that paragraph 3 seemed somewhat downbeat. He suggested that the second sentence be amended to read, "Discussions on key issues, such as appropriate exchange rate regimes, the role of capital controls, and how to involve the private sector in conflict prevention and resolution, have been an important focus for the IMF in recent months, and will continue in the period ahead." He also suggested that removing the word "all" from the third sentence of page 3 might address the concerns of Mr. Portugal and Mr. Carstens.

4. NEW FUND FACILITY FOR BALANCE OF PAYMENTS DIFFICULTIES RELATED TO YEAR 2000 COMPUTER PROBLEM—STATEMENT BY MANAGING DIRECTOR

The Executive Directors considered a statement by the Managing Director on a possible new Fund facility for balance of payments difficulties related to the Year 2000 computer problem (EBD/99/107, 9/13/99).

Mr. Rouai submitted the following statement:

> At this stage, I have a couple of comments on the proposed Y2K Facility. First, the proposed rate of charge with a surcharge makes the proposed facility inappropriate for ESAF-eligible countries, in particular at this juncture when the emphasis is on reducing the debt burden of these countries. I therefore propose that at least we should refrain from imposing a surcharge on the rate of charge applicable to this facility.
>
> Second, I would like the staff to elaborate on the situation of countries with off-track programs. Will they be eligible for the new facility?

Ms. Lissakers made the following statement:

> It may be that Y2K will turn out to be rather mild and nothing to get too excited about, but the Y2K financial phenomenon is unpredictable and the potential for serious damage is there. Certainly that is the assessment of my

authorities, and, indeed, the assessment of many central banks, which are themselves either creating or contemplating creation of special liquidity facilities for their internal use to be available in the event of unusual pressures associated with the century date change. It is, I think, quite reasonable that the Fund look to its own capability to respond in an analogous way and in an international context to the needs of members as they may arise and could arise, indeed, quite suddenly, as we get closer to the millennium change.

The Managing Director makes the case quite well, and our thinking on desirable features of the proposed facility is along the same lines as his. We probably do not come out exactly in the same place as he does, but the principles would be, first, that the facility is temporary, and I mean short term, that it is of a relatively short duration; second, that there be a surcharge to the facility to discourage frivolous use; and third, that we should have it completed and announced in time for the conclusion of the 2000 Annual Meetings.

When I say short term, our idea is that decisions under the proposed facility should only be taken until the end of January 2000, and disbursements made until end of February 2000, with repayments by the end of March 2000 with a possible extension to June 2000. I am not suggesting a rigid formula, but that is sort of the range we were thinking, and a charge of maybe 250 basis points over the standard SDR rate for the facility.

As far as access is concerned, it is hard to judge. We do not know what, as I say, the magnitude of the potential Y2K storm will be. 100 percent of quota seems like a reasonable starting point or premise. We could see if things turn out worse, whether higher access would be necessary, but I do not think we have to commit absolutely to that at the outset.

Mr. Hansen made the following statement:

Ms. Lissakers said exactly what I was going to say. I agree to almost everything except one point, but first I want to thank you for taking the initiative of introducing this facility, which is very pertinent to the situation. There was one point where we probably want to strengthen the facility a little bit, but that is also the only point where I have a slightly different opinion than Ms. Lissakers, and that is on the surcharge. The surcharge should be slightly higher and reflect the surcharge that we have on the SRF. The reason for this is that I could foresee that it would be difficult to distinguish between what are Y2K problems and what are ordinary balance of payments problems. Therefore, to avoid any arbitrage between the various facilities, we would suggest a higher surcharge.

Mr. Esdar made the following statement:

This is a very informal discussion, and I thank you for providing us with this opportunity before the Deputies meeting tomorrow. I also have to admit that we have not come to a final conclusion. It is really a close call to make the assessment whether a new facility gives the impression that there is a problem or whether it helps to calm down expectations of markets and convince markets that there are solutions, and therefore there should not be that much concern. Overall, we tend to agree that to establish such a mechanism could be a good idea.

With regard to the features, we are very much close to the remarks made by Mr. Hansen and Ms. Lissakers. I understood that Ms. Lissakers, by the way, had the same point on the higher spreads as Mr. Hansen, if I understood her correctly. We also think the spread should be much higher than 100 percent, and we think 300 basis points in line with the SRF would be a reasonable condition. We also think that the duration of this proposed facility should be a very limited one. Ms. Lissakers in this regard had a very interesting proposal, but we think that this proposed facility should automatically expire by the end of March 2000 without further decisions.

With regard to repayments, I can support six months, although I am a little bit more open compared to Ms. Lissakers as to what should be the absolute deadline to repay.

With regard to access, we have to be careful not to provide too generous an access limit. We would therefore favor an access limit of 50 percent.

With regard to conditionality, I agree that it is not possible to establish a reasonable conditionality if a crisis occurs or if balance of payments flows stop because of perceptions of markets, but we should have a strong, strong precondition for the use of this facility, which means if there is a program, full implementation of the program, and if there is no program only countries with a very convincing track record of economic policies should qualify.

Finally, we might consider whether there is room to help those countries already with Fund-supported programs within the existing program framework and not exclude that possibility.

Mr. Yanase made the following statement:

As Mr. Esdar, my comments are preliminary.

Our position is that it is necessary for the Fund to consider measures regarding the possible impact of Y2K. However, I am not in the position to decide the specifics of the facility or its modalities at this point of time. As you said, further Board discussion will be necessary, and we need to explore what might happen and what the Fund should do.

Actually, I have one reservation or concern about the impact this decision may have, which is that it may accelerate the concern in international capital markets. So, I would like to ask the staff for its view on this point

Mr. Collins made the following statement:

I can only give a preliminary reaction, but I can associate myself with Ms. Lissakers and Mr. Hansen; very largely also with Mr. Esdar and Mr. Yanase. All of this is to some extent because I would like to reach consensus because there is a degree of arbitrariness in designing a new facility.

On the rate of surcharge, Mr. Hansen talked about the SRF. In a way, I look at it more as akin to the CCL, where there is a kind of externally imposed problem, it is a computer problem not a type of financial contagion. Arguably, a country should have been addressing that, so it was a policy lapse on their part, but we all know how difficult it is to prove that, even in the most advanced countries. So, I do not think, actually, that you come to a different answer on the rate on surcharge, but if you wanted to justify 300 basis points, which I think is right for the CCL, then I think that would be publicly a bit more presentable, rather than a kind of a punishment, as the SRF is, to some extent, intended to be, if you want money very quickly.

On duration, as I say, I do not have strong views. I can probably go along with the views of Mr. Esdar.

I can accept 100 percent, as proposed by the Managing Director. However, how would this square with cumulative access limits? If a country has reached its cumulative limit or would if it drew on this new facility, could it exceed its cumulative limit?

Finally, the last point, which I think in many ways is the most important, and Mr. Yanase has touched on this, is the public presentation. This could very easily backfire and make Y2K problems look—especially if it is learned that a particular country is drawing on the facility—much worse than they are. I think a big burden, therefore, rests on the Fund itself to explain very carefully the thinking that underlies the proposed facility.

Ms. Lissakers noted that the central banks that had already set up liquidity facilities to address possible Y2K-related problems had not felt that their actions would create market anxiety or cause the public to overreact. In fact, those banks considered that their actions would reassure the public that they were prepared should any problems arise, which is what the Fund should also do.

Mr. Collins remarked that most of the central banks Ms. Lissakers had referred to were in industrial countries. However, most people were concerned about possible problems in developing countries or countries that were not strong fundamentally. As such, the public may overreact if those countries drew on the proposed facility, as that might indicate that they were in desperate straits. Nevertheless, it would be necessary to announce publicly the creation of the new facility and when members made a purchase under it.

Mr. Kiekens made the following statement:

> The risk that countries would experience Y2K-related balance of payments problems is real. Helping countries to overcome these financing problems, and preserving the stability of the international monetary system, if threatened by Y2K problems, is the responsibility of the Fund.
>
> As the Managing Director rightly mentioned, the Fund has already various instruments for helping countries deal with Y2K-related financing problems. Indeed, countries can request financial assistance under the Fund's upper credit tranche policy for any kind of balance-of-payments needs, including those originating from the Y2K problem. And in case of an emergency, the Fund will act swiftly, using the procedures agreed in the "Emergency Financing Mechanism." For each loan, the Fund must have adequate safeguards. Lending for Y2K problems is no exception, no matter whether the Fund uses its existing credit policies or a special purpose facility. And finally, the early repurchase of upper credit tranche drawings will be expected when the country no longer faces a balance of payments need.
>
> The creation of a special Y2K facility is therefore mainly for the sake of visibility and to signal to the members and the international financial markets that the Fund is ready to provide emergency financing. As other Directors have rightly pointed out, the signaling effect of creating this special purpose facility could add to the problem rather than solving it, if financial markets interpret the Fund's action as indicating more serious problems ahead than they had so far noticed.
>
> Obviously, the creation of the facility may have another result, advantageous for creditor members and a drawback for debtor members, if it is accepted to increase the rate of charge as proposed by the Managing Director.
>
> I would like to stress a few points that are especially relevant.
>
> Not every financial turbulence that will occur from now on should be seen as Y2K related. As the Managing Director stressed, a substantial element of judgment would likely be required in determining whether a particular situation would qualify for access to the Y2K facility.

Financial health resembles human health in that weakened systems are more vulnerable to disorders. As we approach the turn of the millennium, countries that are economically and politically unstable will be the most vulnerable to market turbulences, including those caused by fears of malfunctioning computer systems. And in cases where such malfunctions actually occur, the same countries are most likely to fall victim to Y2K related balance-of-payments problems.

I agree that to qualify, a country must assure the Fund that it can and will repay "positively and confidently," as the Managing Director has said. If at the same time the country has significant balance-of-payments problems stemming from other causes, the problem should be addressed under a comprehensive program to resolve the balance-of-payments problems in their entirety.

I agree with the proposals on access, repurchase period and the life of the facility. It should be stressed that not every activation should automatically be for 100 percent of quota. This is a ceiling and not a target.

The Managing Director has proposed that for such drawings, a higher than normal interest rate should apply. However, since countries can also finance Y2K needs with upper credit tranches with normal interest rates, I propose that normal charges should apply, as long as the country's cumulative drawings on the upper credit tranches and on the Y2K facility do not exceed normal access limits. For drawings above these limits, I agree with the higher rate of charge proposed by the Managing Director.

Mr. Yakusha made the following statement:

My authorities seem to be supportive of the idea, but given the short period of time we were not able to explain to them how it is going to work and as we were not able to understand ourselves how it is going to work. So at this point we have more questions than answers, and have the following questions.

Is this proposed facility really precautionary or is it meant to deal with the consequences of capital outflows? If it is precautionary, how do you measure the existence of Y2K balance of payments problems that have not manifested themselves? In addition, how can we distinguish Y2K-related balance of payments problems from something else?

Are we trying to signal that a country has insufficient additional liquidity to deal with Y2K-related capital outflows or are we attempting to say that a country does not have a Y2K problem if it does not draw on the proposed facility? If countries do not have relevant in-house expertise, we would like to know which outside experts we are going to rely on?

Furthermore, how do we ensure that a country continues to work on its Y2K problem after we have disbursed Fund resources?

We also see some possibility for a kind of conceptual difficulty with this proposed facility regarding access limits. If we provide financing in order to alleviate concerns about insufficient liquidity and we do not know what is the magnitude of possible outflows, but we have at the same time put in access limits, then in this respect we have the following question: Is there anything with respect to introducing an exceptional circumstances clause in the proposed decision on this proposed facility as we have in our normal facilities? Given that apparently this proposed facility is not going to have Fund-related conditionality, we may introduce something as Mr. Esdar suggested, with respect to eligibility criteria, but how do we prevent this facility from undermining conditionality in existing programs? In addition, how do we assess the capacity to repay if we are not able to assess how serious Y2K-related problems will be in the countries that may apply for the proposed facility?

With respect to the terms, we would think that February 2000 should be the date of extinction of the proposed facility. If something will happen, it should happen by this date.

In our view, the spread may be higher than the 100 basis points suggested by the Managing Director, given the short repurchase period, but it is clear that the longer repurchase period, the higher it should go. It may also be unreasonable if the Fund would charge less than central banks in industrial countries under similar Y2K-related windows. In this respect, we would like to ask the staff whether it has any information on what are the terms of the facilities that have been announced already by central banks?

Mr. Zakharchenkov made the following statement:

I welcome today’s discussion on a new IMF facility because the Fund should be able to provide support to its member countries for any balance of payments needs, including in such an unusual case as Y2K-related problems. Therefore, I can support the establishment of a specialized facility to deal with such difficulties.

I do not have strong views on how such a vehicle should be crafted. The way in which it is proposed in the paper seems reasonable to me. I can broadly support the staff’s views on qualification, on access limits, on duration and the repurchase periods, and on the level of charges, including the issue of an additional charge in the case of extension of the repurchase period. Let me, however, provide some additional considerations.

First, on defining circumstances. We are very much in favor of making a clear distinction between Y2K-related balance of payments difficulties and problems stemming from other sources. This, however, is hardly an attainable task given the complexity of the problem, and will inevitably require a great degree of judgment by the staff. Therefore, we think that the recourse to this facility should be limited as much as possible and should apply, perhaps, only to cases of a large and sudden need. In this regard, I can support the idea of using resources from credit tranches under the existing arrangements if Y2K-related pressures are relatively small.

Second, having searched through the paper, I was unable to identify what kind of conditionality will be applied to member countries in cases of their willingness to use such a facility. The only indication I found was the reference to some prior actions in par 4. We would very much welcome further elaboration on this issue by the staff particularly in light of the high access limit proposed under this instrument.

Mr. Faini made the following statement:

Let me be brief and say that I more or less agree with what has been said by previous speakers, and that we can go along with the proposal. Clearly, as the staff and Managing Director have pointed out, and Mr. Kiekens earlier said, we have an identification problem here. It would be, as the Managing Director said, extremely difficult to involve a lot of judgment to determine whether we have a Y2K problem or a more general balance of payments problem. We therefore may want to apply conditionality, but, of course, as other speakers have pointed out, this is difficult. However, here I agree with Mr. Esdar, if a country is off track, it should not, I believe, be eligible for this proposed facility. I do not think that looking at whether a country has outstanding repurchases is a good criteria to determine whether the country is really in need or not of this proposed facility. That will not solve the identification problem. So, overall, if we want to build a facility under those conditions, we should look at all of its features at one time, simultaneously.

I think that a large surcharge on the size that Ms. Lissakers was proposing 250 basis points and perhaps even 300 basis points, is essential given that we have no other alternative to avoid what she calls frivolous cases, perhaps we can call them inappropriate uses of other facilities. I would point out that this is still less than the cost that most countries would face if they had to rely directly on financing from markets.

Having said that, I think that if we have a large surcharge, however, there are good reasons to be somewhat more lenient on the other features of the facility. In particular, I believe that the access should be relatively large, the size proposed by the Managing Director, because we do not know what will be the size of the problem. The same reasoning applies for the repurchase period. Setting a repurchase period in two months or three months would be extremely short, and we have no clue as to how long the Y2K problem will last. So, the stick, in my opinion, should be the large, the relatively large surcharge, and the carrot, which is determined by a lot of uncertainties surrounding this issue, should be six months repurchase period, and a relatively large access.

Mr. Taylor made the following statement:

Mr. Yakusha began his statement in a way that reminded me of the view of one of my authorities, they are supportive of this idea, but they have asked me to explain what it is for and how it will work.

My first observation would be that, as far as I can see the kind of events that we might be concerned about should be capable of being met by our basic facilities and that this is more about visibility, as Mr. Kiekens said, than anything else.

Second observation, we are being ambushed on this. Frankly, it is unconscionable that we get this now without much earlier submission. Paragraph 4 on qualifications would benefit from much more consideration. How is it that this comes up now at 5 minutes to midnight? Like the exchange rate regimes paper, there are clearly quite big problems in organizing our work in this institution. I would like to ask Ms. Lissakers's Committee to examine how it is that we only received this paper now instead of six months ago, or at least six weeks ago?

It is not out of the question, however unlikely it might be, but it is not out of the question that something akin to this could happen. So, this might be a very good idea, in principle. But, is it a good idea in practice, or is it a good idea that has gone wrong in its design? Where would the money go if financial market repercussions arising from anticipation of potential Y2K problems, including self-reinforcing expectations of portfolio shifts because of precautionary behavior, occur? I suppose it would go to the U.S. Federal Reserve Bank, or to some other major capital center.

Why not adapt the facilities that already exist in major capital centers? If they are inadequate, why are they inadequate? Why could they not be restructured to better do the job than we are setting out to do? Would that not be more stabilizing in terms of capital flows than drawing in countries, such as New Zealand through the operational budget? Why draw on New Zealand's limited reserves to support this facility? Would it not be better to have an unlimited line of credit though infusion from the Fed to back this proposed facility, rather than use our limited resources, because if there is a problem and we cannot rule that out, then what we need is, as Mr. Faini and some others were saying, is a facility with very large access, 100 percent of quota would be almost trivial, we probably need a facility more akin to the monetary base of the country suffering the problem, so if this proceeds, I would favor a facility with relatively very large access with a very high surcharge, at least as high as the surcharge Mr. Collins identified, but in principle, something that is more than fully market related with very short duration, probably June 2000 is appropriate in that respect.

Mr. Bauche made the following statement:

Just some brief, preliminary comments. I understand that concerns here are geared toward safeguards and communication. As far as we are concerned, we can go along with this proposal, provided that some safeguards are established, especially regarding the surcharge.

We would favor an even higher rate of charge because we have the feeling that we have to establish a clear difference between the new facility and other facilities or Fund-supported programs.

On qualification, we believe that eligibility should be restricted to countries with strong track records with the Fund, or that have good reasons for being off track.

For duration, we had the feeling that end-June 2000, as is mentioned as a possibility in the statement of the Managing Director is not appropriate, as the Y2K problem will occur for a limited period. Therefore, we would prefer a shorter window, such as end-March 2000 would be reasonable.

For communication, I share the concern raised before by Mr. Yanase. As this is an informal meeting, I have to say that after I have read the statement by the staff representative at the WEO and the statement by the Managing Director, my first reaction was to run to the bank and withdraw my savings until the end of the year 2000 crisis. Therefore, I guess we should be very cautious in our external communications, because we do not want to contribute to the problem, we want to solve it.

Mr. Zakharchenkov asked whether it would be possible for the staff to process requests for the new facility in less than one month.

Mr. Cippà made the following statement:

Like others, I believe the main problem is the identification between Y2K problems and balance of payments problems, and in this respect, I think that I would like to ask the staff how confident it is that they could make this distinction, because this is very crucial for the terms of the facility. For instance, if we are not confident that we can distinguish between the two, we have to be cautious and that justifies in this sense higher charges and the restricted eligibility. But, if we are confident that we can separate what is essentially a technical shock, I do not see many reasons for many of these justifications. For instance, why should we charge higher charges if this is a technical shock? Why should we restrict eligibility? Technical shocks can hit bad or good performers, so if we do not have a clear relationship between good performance and capacity of repayment to the Fund, we cannot establish this criteria. I would like to have some comments from the staff in this respect.

The second question I have is that I had in mind a facility that was an ex ante facility, and now I am a little puzzled that we begin disbursing in January 2000 or February 2000. I had in mind that disbursements would occur possibly before January 1, 2000, and that after that, it becomes a technical facility.

Mr. Al-Turki made the following statement:

The design of the Y2K facility seems reasonable. I can go along with the proposals regarding the defining circumstances, the shorter repurchase timetable, and the duration of the facility. With regard to the proposed access limit, while 100 percent of quota seems reasonable at this time, it should be applied with flexibility. Having said this, I am not very clear on how this facility fits the needs of lower-income countries, which could also face disruption related to the Y2K problem.

Mr. Nelmes made the following statement:

We support the creation of the new facility. In our view, we think that this facility has to be designed more as a short term and focused one, not as one that can be used to address larger structural problems. What that implies, of course, is that we are going to have to determine the liquidity needs versus the solvency needs of a country, so the identification problem is there.

In terms of the rate of charge, we see that there should be a surcharge of at least 250 basis points; we would even agree with 300. The reason for this, of course, is to encourage members to use markets wherever possible to manage liquidity.

On the repurchase period, we think that a repurchase period of six months is appropriate, and the proposed facility should exist for a very short duration, ending somewhere in January 2000.

Mr. Oyarzábal made the following statement:

First, I would like to support the proposed facility. We agree largely with the proposals made by Mr. Faini with respect to access, that they should be on the higher side, as well as on the surcharge. We think that the duration should be short, probably expire by the end of March 2000, and with an early repurchase, in the area of six months. These comments are of course preliminary, and we would like to suggest that the revenues produced by the surcharge be destined for the ESAF-HIPC Trust.

Mr. Zoccali submitted the following statement:

We also believe that a new IMF facility for Y2K-related balance of payments difficulties would be a useful preventive construct. The market anxiety is there, and as you have noted, Mr. Chairman, the interest rate spike reflects the concern. We feel that this is a proper way to help deal with this uncertain issue. We recognize the identification problem, nevertheless, the Managing Director’s Statement presents the issue in its proper context. Judgment will be required, and we consider that the judgment has been exercised well by the Fund in the past, and will continue to be exercised well in this case.

We, therefore, can go along with the proposal in terms of qualification and fairly high access with the proviso that this facility should be fully floating.

On the repurchase period, we have no difficulty.

On charges, we can see the case, perhaps, for a surcharge, or for a higher progressive surcharge along the lines stated in paragraph 7. Finally, on duration, we see merit in keeping it short.

Mr. Wei made the following statement:

For the reasons given in the paper, we could agree to establish such a facility. I believe that in most cases it would be developing countries that might need to have access to this facility. So in that case, I believe we should not add too much burden to the problem that they might have owing to the Y2K problem. So, in that sense, I agree with Mr. Kiekens for the normal access, with the normal rate of charge and a minor surcharge of 100 percent, not more than that. For the duration, six months looks reasonable. For the expiration point, maybe the end of June 2000 is more reasonable.

Mr. Dhanpaul made the following statement:

We are of the view that the definition of Y2K-related problems could lead to further difficulties. For instance, it is risky to assume that balance of payments needs derived from real sector problems would be easy to distinguish from non-Y2K problems derived from actual anticipated Y2K problems in a capital account. The influential variables in both cases may not be mutually exclusive. It would, as the staff suggests, be a judgment call in the final analysis. While we agree that the Fund should make every effort to safeguard its resources, we are concerned that many countries would be excluded based on the current assessment of qualification.

Given the nature of the Y2K problem, we agree there should be a fairly high access limit and provisions for exceptional access. We agree that the period for repurchases should be short term. It must be noted that the extent of the problem would vary across members. Accordingly, members should be allowed to have some flexibility with regard to the repurchase period under the proposed facility. Finally, we agree with the concept underlying the charges for the proposed facility as well as its duration.

Mr. Jadhav made the following statement:

We would like to go along with the proposal, and have a couple of preliminary comments. Most systems and computers in developing countries are imported from industrial countries, and if they fail, it would be because of the inadequate skills of personnel responsible for testing the systems or because of inadequate resources to replace or work out the contingency plans. As Ms. Lissakers and Mr. Faini and others have said, we do not know the magnitude of the Y2K problem, and it does not seem likely that we will know the actual magnitude of the problem before December 1, 1999. In light of this, we would be in favor of minimum prior action conditionalities and that access should be relatively large, and we would like to associate ourselves with Mr. Taylor's observation that 100 percent quota is trivial in that regard. We also feel that the proposed facility should exist at least until June 2000. Finally, we would like to associate ourselves with Mr. Cippà's view that there is no need to have a surcharge as this facility is being created to address a technical shock.

Mrs. Hetrakul made the following statement:

We welcome the Fund's initiative to set up a special, temporary facility to deal with the uncertain but potentially significant impact of the Y2K problem. With a crisis just behind us and the lessons learned from the impact of massive capital movements on a country, a precautionary facility should be helpful.

On the definition of the Y2K-related balance of payments problems, we agree on the need for a substantial judgmental element in deciding whether the particular member qualifies for the proposed facility. While we find the criteria to define the proposed facility to be quite rigid, we nevertheless believe they are warranted. We can also go along with the suggestion to have a relatively high access limit, up to 100 percent of quota. However, we have some reservations on the premium charges. Indeed, the duration of the proposed facility, with its date-specific issue, should be short and not extended, much more than three months into the new millennium.

Mr. Barro Chambrier made the following statement:

Given the circumstances and the potential threat to the international financial system, this proposed facility is appropriate and timely. I would, however, like to underscore that we need to be cautious and to avoid triggering what we want to prevent. In particular, I would refer to our communications policy, which Mr. Bauche mentioned.

On the question of access, I broadly agree with the basic conditions proposed. On qualification, I am for a certain degree of flexibility in the approach, even if I understand that we need to preserve the Fund's integrity and its resources. On the repurchase period, I can go along with the proposal. On the surcharge, I do not think that a surcharge is appropriate given the root of the potential threat of this problem. Finally, I would hope that this proposed facility will be available to a broader spectrum of the membership.

Mr. Al-Faris made the following statement:

Like other speakers, we welcome this new initiative with its broad outline. However, like Mr. Rouai, Mr. Al-Turki, and Mr. Wei, we are concerned that the proposed surcharge might be too high for low-income countries.

Mr. Akatu made the following statement:

Like other speakers, our views are fairly preliminary at this point. We broadly welcome this proposal, which we believe seeks to address a problem that is potentially something to be concerned about. We generally endorse the proposal as presented by the Managing Director, except to say that there is a need for flexibility, as Mr. Barro Chambrier has indicated, regarding the qualification, so as to ensure that access is available to a broad spectrum of the Fund's membership.

We also think at this point that, given the nature of the problem, there is not a strong case for the surcharge that some speakers have proposed. It seems to us that there is a sense that this problem can be said to be somewhat outside the control of many countries, especially developing countries.

We also think that there should be some consideration as to whether this proposed facility should not be of a precautionary nature, so that countries would have prepared themselves and gone through the process of lining up the resources that may be necessary in order to allow disbursement when a problem actually occurs.

The Deputy Director of the Policy Development and Review Department noted that present Fund facilities could address any Y2K-related problems. However, the staff felt that the higher charges and the early repurchase expectations and obligations associated with the proposed facility were more appropriate, and that announcing the creation of a new facility would reassure markets. In addition, the creation of a new facility would avoid having to modify existing facilities.

In terms of publicity, the Fund would at some point have to make a public statement on the Y2K issue, regardless of whether a new facility were created, the Deputy Director said. However, any public statement would have to ensure that it did not adversely affect markets.

For those countries requesting resources under the proposed Y2K facility whose performance under a Fund-supported program had gone off track, the staff would presume that the large part of the underlying problems confronting such countries were not the result of the Y2K issue, particularly as it was hard to identify a Y2K problem, the Deputy Director explained in response to a question from Mr. Rouai. In that connection, it would be important to safeguard the use of the Fund's resources, as Mr. Kiekens and others had stressed. Consequently, a country would need to have a strong track record with the Fund in order for the Fund to have some assurance that repurchases would be made. Therefore, a country that was off track would normally not be expected to be eligible for resources under the proposed facility. Management and the staff would, however, have to exercise a good deal of judgment in that regard as would the member concerned in determining whether a country was facing a Y2K problem.

The proposed facility would be considered a precautionary one, the Deputy Director replied in response to a question from Mr. Yakusha. It could hopefully instill some degree of confidence in the market. However, if a country encountered a Y2K-related balance-of-payments problem, the proposed facility could also help in a curative sense. However, qualifying for the proposed facility should not be seen as a stamp of approval of a member's Y2K level of preparedness. In addition, management and the staff could bring forth a request to the Board on a short notice. If a country were on track, determining eligibility would be easy.

The Fund did not have sufficient resources to address the Y2K problem if it turned out to be catastrophic, the Deputy Director clarified in response to a question from Mr. Taylor.

Mr. Taylor remarked that small countries should be eligible for the proposed facility, even if they only had a short period of good cooperation with the Fund.

The Deputy Director of the Policy Development and Review Department observed that the proposed facility could help individual countries as well as help address systemic problems. However, the staff envisaged the proposed facility of being of most use to countries that had significant access to capital markets and were particularly vulnerable to capital flows, which was the not the case for a number of low-income countries or very small countries. Nevertheless, the possibility that such countries may need to draw on the proposed facility had led to the idea of having a surcharge.

Mr. Cippà said that many poor countries could be affected by the Y2K problem as it would not only affect financial flows, but also the real sector. However, how could countries with ESAF-supported programs request assistance, as under the terms of the ESAF they had agreed not to subscribe to any nonconcessional loans.

The Deputy Director of the Policy Development and Review Department replied that countries with ESAF-supported programs could request resources available to them under other Fund facilities.

Access under the proposed facility would be entirely separate from the access members had under other Fund facilities, the Deputy Director explained in response to a question from Mr. Collins.

It would not be appropriate to have uniform repurchase periods under the proposed facility, the Deputy Director remarked, in connection with a comment made by Ms. Lissakers.

Further study of the potential effects of the Y2K problem would not yield any significant insights, the Deputy Director said in response to a question from Mr. Yanase.

It would be difficult to apply Fund conditionality to purchases made under the proposed facility, the Deputy Director noted. However, the Fund would need to be reassured as to how a country planned to address its Y2K-related balance of payments difficulties. In any event, the relative large surcharge and relatively short repurchase period would help ensure that countries addressed their problems promptly.

The Deputy Director of the Research Department noted, in connection with a comment made by Mr. Taylor, that it would have been difficult to argue credibly six months ago that Y2K-related problems could affect a member's balance of payments situation. Only recently had indicators pointed to an increase in the degree of nervousness in financial markets, including the so-called spike in the Y2K interest rate and the spike in the forward interest rate in the eurodollar market. There were hardly any such spikes evident in the first or second quarters of the calendar year. While it was not certain that those spikes were entirely attributable to nervousness associated with the Y2K problem, that problem was the most likely cause of some of the mounting nervousness in markets. In addition, commercial banks as well as other financial market participants were planning to reduce substantially their exposure to emerging market countries toward the end of 1999, which would cause liquidity to decrease in some markets, with some risk of contagion.

There was still some uncertainty as to how Y2K problems could affect the real sector, although the staff was optimistic that such disruptions would not be serious in most cases, the Deputy Director said.

The Acting Chairman remarked that management had been concerned about the issue of moral hazard arising if the proposed facility were brought to the Board too soon.

The Deputy Director of the Research Department noted that the spike in the eurodollar market reflected a general expectation that the demand for liquidity was going to be high toward the end of 1999 as well as the willingness of the operators in the eurodollar market to pay a premium in order to ensure that they were liquid toward the end of 1999. Possibly liquidity crunches would not just affect emerging markets, but mature markets as well, which was why the major central banks had announced their liquidity support facilities.

The Federal Reserve was surcharging 150 basis points for the use of its facilities, the Deputy Director continued. The ECB was not planning on creating a special facility, but would instead rely on its normal lender of last resort, the Lombard facility, which had a surcharge of about 200 basis points above the repo rate. However, the situation facing those central banks was different than the one the Fund faced. There was the question of the ability of a central bank in a lender of last resort facility to require collateral. There was also the question of what was the alternative for possible borrowers, the countries that may want to avail themselves of a Y2K facility. If those countries currently faced risk premia in financial markets that were substantially higher, would then a risk premium or a surcharge of the magnitude that some Directors mentioned be a serious penalty, or would it still be an attractive facility compared to the alternatives? All of those were complicated issues.

The staff was of the view that, given the evidence of significant nervousness already in financial markets, the awareness of contingency plans, including those of central banks around the world, but also a contingency plan in the Fund to deal with possible external liquidity needs, could only help allay concerns triggered by the enormous and pervasive uncertainty. Given all the uncertainty, at least markets would be better informed of contingency plans in the event Y2K problems turned out to be serious.

The Acting Chairman asked whether the staff anticipated demand for the facility to be greater before or after December 31, 1999.

The Deputy Director of the Research Department replied that the expectation was that financial markets would react to actual or perceived problems that emerged or were expected to emerge in the last two months of 1999. However, there may be repercussions in financial markets in early January 2000 if there were significant real sector disruptions because of the Y2K problem.

The Director of the Research Department noted that the Fund already had a variety of facilities that members could use to help address potential or actual Y2K problems. Therefore, the creation of a new facility would not diminish the availability and applicability of those facilities. Rather, it would supplement, not replace the resources already available to members. The proposed facility was designed to be able to respond to any additional needs members may have that the existing facilities could not address under the given circumstances.

A member that already had a Fund-supported program could request an increase in its access at the normal rate of charge, the Director continued. Perhaps conditionality would need to be adjusted and the program revised. Therefore, the surcharge was appropriate for those members that did not wish to avail themselves of the traditional facilities.

If the Y2K problem turned out to be worse than expected, the Fund would have to reconsider how best it could assist its members to address any balance of payments difficulties they faced as a result of it, the Director said. The proposed Y2K facility was not intended to solve all potential Y2K problems. Rather, the purpose of the facility was to target a range of problems for a range of countries that existing Fund facilities were not particularly well structured to address, as disbursements would need to be made rapidly. Thus, establishing the usual conditionality would be difficult given the possible immediate needs of members.

Even though conditionality would not be a safeguard in that context, there would be other ways of protecting the Fund's resources, the Director continued. For example, the Fund would restrict access to the proposed facility to those countries that had good track records. The same was true where there was no strong, underlying economic problems to prevent the member from making its repurchases in a short period of time. As such, members without the capacity to repay quickly would generally be considered ineligible for the proposed facility. In addition, members availing themselves of the proposed facility would have to pay a premium over the normal rate of charge, although that would still be less than the normal market cost of those funds. However, those countries that would find it difficult to access the proposed facility, given that its terms would need to look at other Fund facilities to help them deal with potential or actual Y2K problems.

Ms. Lissakers said that the repurchase period should be either three months or six months. In addition, members should not be allowed to access the facility after February or March 2000, although they should be able to draw on it, if eligible, before the end of 1999.

How did the staff arrive at a figure of 100 percent when it considered the access limit of the proposed facility, Ms. Lissakers asked. For example, why could there be no access limit at all as the higher surcharge might safeguard sufficiently the Fund's resources.

The Deputy Director of the Policy Development and Review Department replied that 100 percent seemed to be a fair, large, and round number. An access limit of 100 percent would also ensure that the liquidity of the Fund would not decrease dramatically. In addition, an access limit would allow more uniformity of treatment.

An "exceptional circumstances" clause could allow for additional access, where necessary, the Deputy Director said.

Mr. Donecker said that if a member required access exceeding 100 percent, that could indicate its problems were larger than just Y2K problems, and it should therefore request any additional resources under traditional facilities.

Mr. Taylor remarked that the facility should allow for access above 100 percent, with an appropriately high surcharge.

Mr. Faini said that access should be limited to 100 percent, as the proposed facility would not have the usual Fund conditionality.

The Acting Chairman suggested that perhaps Directors could support an "exceptional circumstances" clause as an alternative to a higher access level in case the Y2K problem turned out to be worse than expected.

Mr. Donecker remarked that resources provided under the proposed Y2K facility could be seen as the initial part of a more regular Fund arrangement with appropriate safeguards.

The Deputy Director of the Policy Development and Review Department noted that members would not have any assurance that a regular Fund arrangement would follow, as it would first need to be negotiated.

Mr. Collins supported the remarks of Mr. Faini, and said that he could also support adding an "exceptional circumstances" clause to the proposed facility.

The Acting Chairman made the following concluding remarks:

> This has been a preliminary discussion, but one that has taken us a good way toward the decisions we will need to take. It is clear that, despite all the efforts and progress in repairing computer systems, the risk that Y2K problems will arise is still believed to exist, and it has potentially serious consequences for growth, international trade, and capital flows. In light of this, Directors thought it was important for individual members and the system, particularly emerging market member countries but also others, that the Fund be in a position to provide timely, and possibly sizable, financial support to members experiencing Y2K-related balance of payments difficulties.
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> In providing such support it was generally accepted that:
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> First, it would be very difficult to craft a precise definition of what a Y2K-related balance of payments problem is in the abstract, and the Board will have to exercise a substantial element of judgment in assessing any requests for Y2K balance of payments assistance.
>
> Second, the Board wants members seeking such support to be doing all they can to address Y2K problems that are under their control, and to present a clear plan to the Board for prompt corrective action of Y2K problems. The Fund should take the opportunity of the Annual Meetings to press members to take whatever preventive action is still possible and to put in place

contingency plans for dealing with problems that may arise. It would also be helpful if Directors could stress this point to their authorities who will be attending the meetings.

Third, it will be important for the Fund to look to safeguard the use of its resources in this context by requiring a good record of cooperation with the Fund, a generally sound policy stance, and a positive assessment by the Fund of the member's capacity to repay.

Regarding the modalities of Fund support, most Directors considered that a temporary and short-term facility dedicated to Y2K balance of payments problems would provide the clearest and most convincing form of Fund response, although there was a discussion of what could be done without creating a special facility. We will need to return to the specifics. Although a few Directors were not yet in a position to provide views on the proposed facility and its modalities, there seems to be broad support for the main features of such a facility along the following lines:

First, support would be provided in the form of outright purchases.

Second, access should be set in relation to need, and subject to a maximum limit of probably a hundred percent of quota possibly with larger access under an exceptional circumstances clause.

Third, purchases would be subject to repurchase expectations of six months, with repurchase obligations of no more than one year from the date of purchase.

Fourth, purchases would be subject to a surcharge over the basic rate of charge, with many Directors indicating they could support a surcharge in the range of 250–300 basis points, possibly with rising charges if an extension of a repurchase expectation were requested by a member and approved by the Board.

Fifth, the facility would be of short duration, possibly until the end of March 2000.

The staff will circulate a draft decision for the Board to consider next week.

Mr. Donecker said that he was opposed to an access limit greater than 100 percent, and that he could not support the inclusion of an "exceptional circumstances" clause.

Mr. Rouai asked if countries could increase their access under regular facilities in order to address Y2K-related balance of payments difficulties.

The Deputy Director of the Policy Development and Review Department replied that members could be always given higher access under regular facilities.

Ms. Lissakers remarked that she disagreed with Mr. Kiekens on the access level, as there would be minimal conditionality associated with the proposed facility.

Mr. Kiekens replied that countries could always access upper credit tranche facilities with no conditionality under the Articles of Agreement.

Mr. Collins asked when the proposed facility would become effective. In order to discourage overly early and possibly inappropriate requests for use of the proposed facility, it should not become effective before December 1999.

The Deputy Director of the Policy Development and Review Department observed that it would be difficult to determine what would be the right time to make the proposed facility effective.

The Deputy Director of the Research Department added that it was expected that financial market participants would start moving to liquid instruments as soon as October 1999.

Mr. Yakusha remarked that the possibility of an "exceptional circumstances" clause should not be overemphasized in order to avoid moral hazard. In addition, the proposed facility should not be considered as a bridge to a normal facility, as that could also create moral hazard issues.

Mrs. Farid noted that members should be assured that their requests for resources under traditional facilities to address Y2K-related balance of payments problems would be treated expeditiously.

The Deputy Director of the Policy Development and Review Department noted that such requests could be handled expeditiously.

Mr. Cippà asked whether members with poor track records would be eligible to access the proposed facility.

The Deputy Director of the Policy Development and Review Department replied that the Fund would need to be assured that safeguards were in place for its resources.

Mr. Cippà asked why members that pursued policies that the Fund disagreed with should not be eligible for assistance for a problem that was technical in nature and not connected to their economic policies.

The Deputy Director of the Policy Development and Review Department replied that in those cases the requirement on the Fund was to ensure that its resources were safeguarded, which meant that the Fund would need to assess a member's ability to make the required repurchases.

Ms. Lissakers noted that an "exceptional circumstances" clause was appropriate for the proposed facility as there was great uncertainty related to what the magnitude of the Y2K problem could turn out to be.

The Acting Chairman noted that the Board would return to the design of the proposed facility in the following week.

Mr. Donecker observed that Board could decide to increase access under the proposed facility on a case-by-case basis rather than include an "exceptional circumstances" clause in the decision establishing the proposed facility.

The Deputy Director of the Policy Development and Review Department observed that the member Mr. Cippà seemed to be referring to in his earlier question would be eligible for the proposed facility.

The Acting Chairman remarked that the Board would continue the discussion in the following week.

APPROVAL: June 27, 2001

SHAILENDRA J. ANJARIA
Secretary