

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/85

3:00 p.m., June 8, 1987

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors

Dai Q.

M. Finaish

J. E. Ismael

H. Lundstrom
M. Massé

Y. A. Nimatallah

G. Salehkhoul

Alternate Executive Directors

E. T. El Kogali

D. C. Templeman, Temporary

H. S. Binay, Temporary

M. Hepp, Temporary

T. Alhaimus

B. Goos

J. Reddy

J. R. N. Almeida, Temporary

M. Foot

D. McCormack

C. V. Santos

D. Saha, Temporary

I. A. Al-Assaf

C. Noriega, Temporary

S. de Forges

J. de Beaufort Wijnholds

I. Sliper, Temporary

O. Kabbaaj

L. E. N. Fernando

M. Sugita

S. Rebecchini, Temporary

L. Van Houtven, Secretary and Counsellor
B. J. Owen, Assistant

1. Article IV Consultation Procedures - Changes in Cycle,
Including Initiation of Bi-Cycle Page 3

N/A

SECRET
DALLAS OFFICEAlso Present

Administration Department: H. Wiesner. African Department: R. J. Bhatia, Deputy Director; N. Abu-zobaa, E. A. Calamitsis. Asian Department: P. R. Narvekar, Director; U. Baumgartner. European Department: P. B. de Fontenay, Deputy Director; G. S. Tavlas. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; G. Belanger, H. B. Junz, S. Kanesa-Thasan, P. J. Quirk, R. L. Sheehy. External Relations Department: S. W. Kane. Legal Department: H. Elizalde, A. O. Liuksila. Middle Eastern Department: K. Nashashibi. Secretary's Department: C. Brachet, Deputy Secretary; A. P. Bhagwat, G. Djeddaoui. Western Hemisphere Department: M. Caiola, J. Ferrán. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: M. B. Chatah, L. P. Ebrill, A. R. Ismael, A. Ouanes, G. Pineau, I. Puro, A. Vasudevan. Assistants to Executive Directors: F. E. R. Alfiler, O. S.-M. Bethel, R. Comotto, W. N. Engert, K.-H. Kleine, V. K. Malhotra, R. Manfredi Selvaggi, T. Morita, G. Schurr.

1. ARTICLE IV CONSULTATION PROCEDURES - CHANGES IN CYCLE, INCLUDING INITIATION OF BI-CYCLE

The Executive Directors resumed from the previous meeting their consideration of a staff paper on Article IV consultation procedures, including the initiation of the bicyclical procedure and related changes in the cycles for Article IV consultations (SM/87/117, 5/20/87; and Sup. 1, 6/5/87).

Mr. Massé made the following statement:

The paper before us today is a useful effort by the staff to produce operational procedures from the general guidelines suggested and the comments made by Executive Directors during the discussion on the annual review of the implementation of surveillance. As noted in the summing up at that time, a major consideration arguing for a change in procedures was the possibility of reducing the work load of the Board and staff. I should add here that a large net reduction in the work load of the Board is by no means guaranteed, given the ability of a member, management, or an Executive Director to request an Executive Board discussion.

Understanding the need for caution and prudence in the implementation of such a novel procedure and the limitations inherent in the arbitrary nature of the country selection process, I feel that the staff has arrived at a reasonable approach as a first step toward revising the consultation procedure. However, it is an approach which must be monitored closely to avoid defeating its purpose and, even more, to avoid a decrease in the quality of service and advice given to the Fund's member countries.

More specifically, on the issue of coverage and reporting of the simplified interim consultation, the staff correctly underlines the difficulty of balancing the desire for economy in discussion and reporting with the requirement for accurate and thorough analysis. We cannot proceed to pass judgment on or suggest policies to a member country based on insufficient information or an incomplete picture. However, it is my view that the work load of both Board and staff can only be reduced, as suggested by the staff, by shortening reports and simplifying background papers on recent economic developments. A positive step in this direction would appear to be the staff's recommendation to concentrate the focus of analysis and policy discussions on specific issues during the interim consultation.

Also, if we are not careful, the extent of involvement of the Executive Board may become a problem. Executive Directors, of course, have a responsibility to their various authorities to ensure that their views--particularly their responses to staff appraisals and recommendations--are adequately set out. Many of our authorities may not wish passively to accept staff conclusions

or recommendations, particularly when there has been no Board discussion of them. Further, the scope for interpreting or determining what are "substantive issues" is as broad and varied as there are member countries in this institution. We should not forget that the number of requests for discussion of staff reports may minimize the benefits of the procedure. We, as a Board, should be determined not to lose sight of the objective of cost saving and we should exercise a degree of what might be called responsible self-restraint.

It is anticipated that a review of this procedure will take place in due time, so as to enable us, with the benefit of hindsight, to amend the various country lists as appropriate. It would seem beneficial to attempt to reduce the number of countries for which the next Article IV consultations is set on a 12-month interval, as listed in Table 3, in the light of our experience with those countries being placed on a bicyclic consultation procedure.

Given the concerns that I have expressed, the second option mentioned on page 7 of SM/87/117, of having the consultation completed without formal conclusions although with the ability to request a Board discussion, seems a more practical and flexible approach in testing the initial progress of the proposed simplified interim consultations. Accordingly, I would support an amendment to Paragraph II of the Procedures for Surveillance.

Finally, the authorities in my constituency are agreeable to the proposed changes in the consultation procedures insofar as they are affected by them. In particular, my Irish authorities welcome the staff's recommendation to include Ireland in the list of countries proposed for the simplified bicyclic procedure. They see this simplified procedure as easing the burden on their limited staff resources that is associated with the annual consultation procedures. In recent years, this burden has become heavy because of significant losses to the private financial sector of high-level staff in key government departments and the Central Bank. These difficulties have been exacerbated by the current hiring freeze in the public sector. However, my Irish authorities believe that a country such as Ireland, with a regular flow of economic and financial information and commentary, lends itself to the proposed simplified procedure, without jeopardizing effective surveillance. They believe, moreover, that adoption of the simplified procedure is justified by recent and prospective balance of payments developments. Ireland's current account deficit has fallen sharply in recent years, from a deficit equivalent to 14 percent of GDP in 1981 to less than 2 percent of GDP last year. Moreover, this improvement is viewed as solidly based and likely to persist over the medium term.

The Fund's surveillance of the Irish economy is supplemented by the surveillance activities of the Organization for Economic

Development (OECD) and the European Communities (EC). The net result is a regularly, well-documented economy making the full panoply of a regular Article IV consultation seem unnecessary.

Finally, there are some other countries in this constituency that also fit in the category of countries in Table 3, although there has not yet been any discussion of their cases.

Mrs. Hepp said that her chair welcomed the present discussion to initiate--on an experimental basis--the simplified procedures for the Article IV consultations, which we hoped would bring savings in Board and staff resources.

Two issues were raised in the staff papers for discussion and decision by the Board: the changes proposed in the consultation cycles for several member countries and the alternatives proposed concerning the involvement of the Board in the interim consultation procedures.

On the first point, she fully agreed with the criteria presented for considering the appropriate consultation cycle for each member country, Mrs. Hepp noted. In general, she had no difficulties with the lists of member countries proposed for bicyclic consultation procedures and the longer intervals proposed for three of the member countries. Therefore, if approved by the authorities concerned, she could go along with the proposed lists in Tables 1 and 2 of the staff papers.

On the second point relating to the involvement of the Executive Board in the simplified interim procedure, of the three options proposed, her chair endorsed Option 2, Mrs. Hepp stated. In the first option, if no discussion was requested, there would be a decision approved by the Board without enough participation or involvement of the Board in the decision. Therefore, the first option was to be avoided. In the second option, however, if no discussion was requested, no decision would be approved. Yet, if it were requested, the Board would be involved with discussion and decision. Under the third option, as the staff had pointed out, circulation of staff reports for the information of only the Board could over time mean a weakening of the consultation process.

In sum, the relationship between discussion and decision that better reflects the direct involvement of the Board was the second one, Mrs. Hepp concluded. Therefore, she could endorse the proposed amendment of Paragraph II of the Procedures for Surveillance.

Mr. Noriega made the following statement:

It is our view that the proposal before us today strikes a balance between the opposing concerns expressed during the last annual review of the implementation of surveillance--namely, the need to reduce the work load that annual Article IV consultations

impose both on the staff and on the Executive Board, and to maintain a careful monitoring of member countries' economies. Thus, we are willing to support the proposed changes in consultation cycles and the modalities of the simplified interim consultation.

Recent developments and the most likely evolution of the world economy, however, call for a very flexible approach in extending consultation cycles. In our opinion, we must retain the principle that these consultations should be conducted annually, and that, as stated in the guidelines on their frequency, they should be held annually with members having Fund arrangements; members for which there are substantial doubts about the medium-term viability of their balance of payments; and members whose economies have a substantial impact on other countries.

One angle which, if not overlooked in the staff analysis is not highlighted either, is the relevance of consultations in the design of domestic policies, particularly in small countries with limited resources for conducting more thorough analyses of their economies. In those cases the consultation performs a very useful function, even if balance of payments problems do not exist. Thus, we wish to emphasize that annual cycles should continue to take place if a member so desires, even if the member is eligible for longer-term cycles.

Concerning the involvement of the Executive Board, we endorse the second option. Therefore, we consider the text of the cover note from the Secretary reproduced in Annex II and the draft decision providing for the amendment of Paragraph II of the Procedures for Surveillance appropriate. This option fulfills adequately the objectives of the simplified interim procedure, namely, that the Board be involved, if required by one of its members; that the Board be fully informed about the evolution of the member's economy; and, finally, that the essence and strength of the Article IV consultation process be maintained.

With respect to biennial consultations, we are aware that we are departing from standard practice, and that even if full fledged annual consultations have become, on occasion, cumbersome, they have served their purpose well. Therefore, although we strongly welcome the simplification of the interim consultation as an important source of reducing the work load, economy in reporting in the biennial consultations should not be overemphasized, at least not at the expense of incomplete analysis, which moreover will generally have to be extended to cover the previous two years.

Finally, the proposed modifications should be viewed as experimental in nature. Thus, the criterion for selecting countries falling into the bicyclic consultations, as well as the depth of both the interim and the biennial consultations, should be evaluated on the occasion of each review of the implementation of surveillance in the next few years.

Mr. Sliper made the following statement:

We welcome the changes proposed in this paper and consider that they will go some way in conserving the resources of both the staff and the Board in the consultation process. I note that some Directors have commented that the changes do not go far enough, but in our view they do represent a significant step forward and they are consistent with the experimental nature of the proposals.

I can confirm that the countries in our constituency that have been selected for the new cycle are happy to be included in that arrangement. We also support the proposed reporting arrangements in connection with the simplified consultation, particularly the move to have a very condensed appraisal report and to limit the background paper on recent economic developments to updating some of the more significant tables.

Given the objective of conserving resources, we would recommend that the size of the missions for the interim year should be limited. We would perhaps not go as far as Mr. Ismael in proposing a mission of one but we did have in mind as a guideline that the staff mission in the interim year should be limited to three people. It is difficult to lay down hard and fast rules about mission size, but we would expect that it should be possible to achieve a substantial reduction in staff resources for the interim review.

Continuing on the theme of conserving resources, we hope that both the Fund and member countries continue to give consideration to the 18- or 24-month cycle arrangement. The extended cycle does represent a real saving of staff resources. As for Mr. Nimatallah's proposal to eliminate the 18-month arrangement, we can support further consideration of this idea.

On the issue of the options for the Board's involvement during the interim year, I can go along with the second option presented in the paper. This should preserve the special status or identity of the interim review without overly weakening the consultation process.

For the new procedures to work, as Mr. Massé has noted, Directors will be required to exercise considerable discretion in intervening on both the interim and full reporting cycles. Restraint will be required in intervening or calling for a discussion in the interim year. At the same time, however, it is likely that the quantity and quality of interventions in the full consultation discussion in the Board will be upgraded, given the extended intervals between Board discussions. Having some smaller island members in our constituency, we are aware of the importance that the authorities attach to comments of Directors on their economic policies.

On the matter of selecting an appropriate description for these arrangements, binary seems an accurate term and is somewhat easier to pronounce than bicyclic.

Mr. Rebecchini made the following statement:

We would like to touch upon three subjects in our statement, following the framework of the paper before us: first, the proposed changes in consultation cycles; second, the coverage of the interim consultation procedure; and third, the issue of the Executive Board's involvement.

On the first subject, we can broadly agree with the general criteria utilized by the staff for proposing the present consultation cycles. However, the proposed selection of individual countries for the different cycles seems to warrant reconsideration in some cases in order to take proper account of the needs of the Fund and of the member countries. In this respect, we share the reservations expressed by Mr. Templeman on the need to approve today the lists of periodicity proposed by the staff, and we can go along with his proposal to provide a later occasion for the definitive approval by the Board.

In any case, we feel that a global review of the choices made as to periodicity of consultations should be carried out regularly, as suggested by previous speakers. This review should have two purposes: first, to assess that the chosen periodicity is appropriate for the individual country; and second, to evaluate the overall effects of the periodicity on the effectiveness of the Fund's surveillance and on the work of the Board.

On the second subject, the coverage of the interim consultation procedure, and in line with the view we have already expressed in the past, we agree with the staff proposition that on the occasion of simplified interim consultations, the analysis and the discussion of structural policies could be avoided. The interim consultation should be more in the nature of an update of the analysis and information rather than an extensive policy discussion.

Finally, on the third subject of Board involvement, we oppose the first and second of the three options proposed in the staff paper, while we can go along with Option 3.

The first option is unacceptable since we consider the approval of an interim Article IV consultation on a lapse of time basis as inappropriate. The approval of a detailed staff appraisal requires, in our opinion, a discussion in the Board where Executive Directors may present their remarks, which constitute the appraisal of the Fund.

Option 2 is also unacceptable. This chair has reiterated on several occasions that the Fund is the Board. A consultation with the Fund takes place only if the Board discusses and defines the conclusions of the consultation. Therefore, to amend the Procedures

for Surveillance to permit an interim Article IV consultation to be completed without formal conclusions by the Board is, in our opinion, a serious breach of the Executive Board's prerogatives.

We can go along with Option 3. This proposal allows a clear distinction to be made between the two procedures: a simplified interim discussion between the authorities and the staff, where Board involvement is not required, and a full-fledged consultation with the Fund. It is inappropriate to refer, as is the staff paper, to the risk of attenuating the influence of the interim procedure. The rationale for an interim discussion is precisely to reduce the Board's involvement and to provide a proxy for a full-fledged 24-month consultation. An attenuation of the influence of the interim procedure is thus to be expected.

Mr. Foot remarked that "binary" was not the most suitable word, since there would be more than two cycles. It was for that reason that it would be necessary to make a distinction--but without the need to use too many different words--between the existing 12-month and 24-month cycles, and the new interim cycle. As Mr. Nimatallah had suggested, it might be possible to eliminate the 18-month cycle; he had never understood why fiscal years were important to some countries and not to others.

He too had been disappointed at the small number of countries on the list for bicyclical consultations, Mr. Foot continued. He could accept a delay in the decision for one or two weeks, if that was the majority view, although he was anxious that the new procedures should begin as soon as possible.

Among the questions raised by the proposed procedures, Mr. Foot remarked, it was necessary first to decide how to deal with countries that, in the opinion of some Executive Directors, should be on the bi-cycle but were not. If it was decided for the time being that those countries were kept on the list, requests by Executive Directors for their discussion in the Board would suggest that they probably should be removed from it.

The result would be less of a time saving, except in the preparation of the report, which would be shorter. Alternatively, Directors could submit to the Managing Director, in writing or bilaterally, their views on which countries might be removed from the bi-cycle.

There was also the question of how to add more countries to the bi-cycle, Mr. Foot said. It was important to encourage members to volunteer to join the list, which could be done most effectively by demonstrating that the bicyclical procedure worked well from the outset. The list should thus remain an open one. At the same time, there should not be any argument on the occasion of each Article IV discussion in the Board about which cycle a country should be on. It would be better to accept the list proposed in the staff paper, and to amend it on a regular basis, say, on the occasion of the annual review of surveillance.

On the issue of board involvement, Mr. Foot said that he would prefer Option 2, but could live with Option 3. Whichever solution was accepted, he hoped that Directors would feel free to submit written statements when they had only minor points to make, and not call for debate.

Mr. Goos said that he could fully support Mr. Foot's statement, except that he had a preference for Option 3 for the consideration of staff reports by the Board. However, he could go along with Option 2. In addition, he felt that the four-week circulation period should be maintained also for interim reports. The cover notes to the staff reports should give Executive Directors two weeks, rather than one week, from the lapse of time date to the date for possible Board consideration.

Mr. de Forges made the following statement:

I welcome the follow-up of one of the practical questions discussed by the Board on the occasion of the review of the implementation of surveillance, and the staff paper, which clearly addresses the various issues.

On the bicyclic procedure, I support the staff proposal on coverage and reporting. Nevertheless, I would like to recall that, in our opinion, the simplified reports should not be deprived of the medium-term projections, which are always very useful.

Concerning the form of the Board's involvement, I would favor Option 2 for the reasons advanced by the staff and because it continues the involvement of the Executive Board in discussions with members. Option 3, in my opinion, goes too far in not placing the reports on the tentative schedule of Board meetings and thus risks weakening the discussions between the staff and the country. However, one has to keep in mind that the procedure we are deciding on is to be implemented on an experimental basis, and that annual reviews will be performed.

I have no difficulties with the criteria for regular annual consultations as proposed in the staff paper. I should add that the criterion "substantial doubts about the medium-term viability of the balanced payments" could be applied more flexibly. Like others, I would welcome the wider application of the new procedure. However, the exercise is clearly an evolving one, and judgments will need to be made at the conclusion of any full Article IV consultation with members in the bicyclic category or likely to be included in it. Therefore, I agree with the staff's proposed list of countries for which the next Article IV consultation would be an interim one. Like Mr. Foot, I hope that more volunteers will emerge as the procedure begins to be implemented.

Nevertheless, I understand the very practical proposals made by some Directors. In my opinion, such a list cannot be but a transitory one, always subject to changes depending on circumstances and the proposals of management or judgments of the Board. Aside from that reservation, I have no objection to a further examination of this list, provided that it takes place in the very near future, say, in one or two weeks.

Let me conclude by supporting Mr. Nimatallah's proposal to eliminate the 18-month cycle, the usefulness of which is doubtful.

Mr. Lundstrom made the following statement:

First of all, I should like to thank the staff for a clear and concise paper. I can endorse its conclusions.

When discussing the paper, we should not lose sight of the aim of this exercise, which is to save Board and staff resources. But nor should we be too ambitious, trying to realize all potential savings at once, or what is in my view even worse, delaying the initiation of the new procedures until they can be applied to a maximum number of countries. One important restriction has to be kept in mind: no changes should be effected that could undermine the central importance of Article IV consultations in Fund surveillance, thereby weakening their role in the coordination of economic and financial policies, in particular among major countries. Let me note in passing that the proposal to apply the "large-country" criterion to as many as 20 members would seem reassuring in this respect. Without tampering with the efficiency of the surveillance restriction, it should be possible to reduce considerably the present 2 to 1 proportion between country items and policy matters in Board meetings.

Saving time to devote to policy and systemic issues is indeed the main objective of the bicyclic procedure. There are three factors that determine to what extent that objective can be achieved, the first being the number of countries to which it applies. I would have expected that number to be somewhat larger than 25. Like Mr. Ismael and Mr. Almeida, I think that the staff may have applied the "substantial doubts" criterion a little too extensively. But the list of bicyclic countries is by no means definitive and final, yet it includes a sufficient number of countries for experimentation and for gaining experience with the new procedure. On that basis the procedure could be further developed and, hopefully, applied to an increasing number of countries.

In fact, mounting the bi-cycle may be easier than dismounting it, which might be an argument for starting on a somewhat limited scale, although I do not want to overemphasize it. Shifts from

one cycle to another will have to occur now and then, just as countries' external situations and their status with regard to Fund arrangements change from time to time. The change from a regular 12-month cycle to an "irregular" 12 plus 12 months cycle, or vice versa; should not draw much attention, since both cycles mean annual staff missions and consultation reports.

The second factor determining the amount of Board and staff resources that will be saved has to do with the coverage of simplified interim consultations and with the reporting both on such consultations and on regular consultations. I belong to those who believe that there is considerable scope here for economy, perhaps more than the staff report would suggest. But at the same time, I am fully aware of the difficulties standing in the way of realizing such economy. The staff is understandably not very specific on this score, since both the scope for economy and the difficulties vary from one case to another. It is all the more important that the Board, and individual Executive Directors, be very restrictive in their demands and requirements regarding additional coverage and details. They should exercise what Mr. Massé termed "responsible self-restraint." It may be helpful if the staff is asked to specify the cost in terms of man-days of any such additions.

With respect to the simplified interim consultations, the omission of the background papers on recent economic development papers should mean a substantial economy. In my view, the rule of thumb should be that the number of man-days required for interim consultations should not exceed two thirds of what is normally required for corresponding regular consultations, and efforts should be made to reduce the staff resource requirements for interim consultations even further. In this connection it might be worth considering whether, in some instances, a written procedure might suffice. This would mean that all necessary information and responses to questions would be given in writing, with a staff visit taking place only exceptionally, when a particularly difficult question has to be cleared up.

The third and final issue to be considered concerns the Board's involvement in the simplified interim consultations. Here the paper uses the well-tried technique of presenting two rather extreme alternatives and a middle way. The arguments given against the two outside alternatives are rather convincing--although perhaps not very strong--and I can therefore support the second option, which ensures the necessary flexibility without weakening the consultation process.

In conclusion, it is gratifying that the bicyclic procedure has received such broad support from Directors and that the modalities for the initial period worked out by the staff seem to be acceptable enough for the procedure to be implemented on an experimental basis. At least that is the way I interpret the discussion.

It is true that some differing views have been expressed and that some interesting new suggestions have been made, such as Mr. Nimatallah's idea--with which I agree--that 18-month cycles should be eliminated. I am sure the staff will study these suggestions carefully. But we should not, so to speak, let "the best be the enemy of the good." We need to get started in order to gain experience with the new procedure. When an assessment of the first half year's experience is made in connection with the annual review of the implementation of surveillance early in 1988, the procedure may be adapted in the light of both the experience gained and further studies of today's suggestions. It may then also be possible to add a few more countries to the list of bi-cyclists. Incidentally, the procedure we are talking of does consist of two cycles, and is indeed like a bicycle with two wheels: one with a thick tire--the regular consultations--and one with a thin tire--the interim consultations. So I still have a certain preference for the bi-cycle.

Mr. Dai stated that in general he was in agreement with the proposed simplification of the Article IV consultation exercise and procedures with the view of reducing the work load while increasing efficiency in this institution.

Like some of the previous speakers, he was also not satisfied with the proposed reduction of only 15 a year in the number of full Article IV consultations, Mr. Dai remarked. However, some reduction was better than none at all. To be practical, the reform had to be carried out step by step. Its implementation should not be held back until the ideal scheme had been worked out. He would prefer to implement the proposed bicyclic consultation procedure as early as possible while, at the same time, further possible simplifications and improvements continued to be explored.

Commenting specifically on the proposals in the staff paper, Mr. Dai noted, first, that he could go along with the third option with respect to the involvement of the Executive Board in the simplified interim consultation procedures. The interim procedures should be somewhat different in nature from the regular consultations and should not involve a formal Board participation.

Second, the lists of countries shown in the tables would be subject to change, possibly during regular reviews, to reflect changes in situations, Mr. Dai said. Therefore, and in order to avoid delaying the implementation of the new procedures, the Board should not spend too much time on the controversial issue of the classification of countries.

Third, he was interested in Mr. Nimatallah's proposal to delete the 18-month cycle, Mr. Dai commented. If there were no very strong grounds for an 18-month category, so that it could be modified without jeopardizing the quality of the consultations with countries in this group, his proposal to eliminate it was worth considering.

Mr. El Kogali made the following statement:

From the outset, I would like to endorse any action that will appropriately reduce the growing work load of both the Board and the staff without necessarily undermining the effectiveness of the Fund's surveillance function. The bicyclic consultation procedure is, in my opinion, a useful channel for achieving this goal. The potential reduction in the frequency of Article IV consultations entailed in the proposed system is very much welcomed. I note, in particular, that the incidence of consultations could drop from 130-135 a year to 115-120, which, all in all, could result in a saving of about 10 man-weeks of professional staff resources. This seems, in a way, to meet our general desire to reduce the work load.

Concerning the range of countries that should be covered by the bicyclic consultation procedure, it is interesting to note that some members have already indicated their agreement to change to the proposed consultation cycle. I would like to stress the need to secure such concurrence by individual member countries before they are brought under the proposed system. I endorse the view that for the larger countries, and for members having Fund arrangements or members with possible balance of payments difficulties, regular annual consultations should continue. In this connection, and as noted in the Chairman's summing up at the conclusion of the Board's recent annual review of the implementation of surveillance, the countries represented by this chair prefer to stay on the annual cycle.

For a start, the schedule indicated in Table 1 regarding the incidence of Article IV consultations and of simplified interim consultations might help to prevent the bunching of full consultations every other year for those members adopting a bicyclic procedure. However, it is on the issue of economy of reporting that caution must be exercised. While there may be scope for shorter staff reports, there should be no place for lack of comprehensiveness in such reporting. Updating and analysis of developments and policies, including the sustainability of policies in the medium-term perspective, should be reasonably comprehensive if the reports are to be useful both in helping the Board to reach effective conclusion and in providing reliable advice to the member countries concerned.

On the issue of involvement of the Executive Board on the occasion of the simplified interim procedure, I feel that an action of some sort by the Board would be necessary to conclude it as a consultation with the Fund. In this regard, given the proposals made by the staff, the second option appears to provide adequately for Executive Board discussion of the consultation report, if requested by the member or an Executive Director. Placing the item on the tentative schedule of Board meetings tends to give the interim

procedure a measure of emphasis and reminds Executive Directors that the item is discussable. I share the views of the staff regarding the advantages of this option over the others, and I could endorse it, particularly because of the possibility it affords of continued involvement of the Executive Board. I also support the related proposed amendment to the procedures for surveillance.

Mr. Fernando said that considering that a key objective of the exercise was the more productive use of Board and staff time while providing for sustained relationships between the Fund and members, he supported the idea that annual Article IV consultations were required for those countries whose economies had a large impact on the world economy--defined for operational reasons as those whose quota was in excess of SDR 1 billion--and those countries with Fund arrangements, including those contemplating such an arrangement. On the question of including those members judged to be having difficulty in maintaining medium-term balance of payments viability, the number involved might reflect too high a degree of caution on the part of the staff. After all, the balance of payments criterion would prevail in all those countries with Fund arrangements and are therefore caught up on the 12-month cycle as well as in the case of large countries, namely, those in the first category under the guidelines on the frequency of consultations. While he had no objection to that criterion in principle, a review of the numbers involved was desirable. Of course, he assumed that countries affected by the exercise would accept the procedure relevant to their situation.

In respect of the frequency of consultations, Mr. Fernando said that he could go along with the following classifications: a 12-month cycle; a 24-month cycle; and a 24-month cycle with provision for simplified interim consultation procedures; he supported Mr. Nimatallah's proposal to omit the 18-month cycle. For the experimental stage, he could agree with the coverage and reporting for the simplified interim consultation procedures as spelled out in the staff paper.

With respect to the Board's involvement, Mr. Fernando said that he favored Option 2 under which--through an amendment to Paragraph II of procedures for surveillance--the Article IV consultation could be deemed completed without formal conclusions by the Executive Board.

Mr. Saha made the following statement:

On the implementation of the bicyclic consultation, the criteria used by the staff for the selection of countries to be included in the different cycles seem appropriate. While I realize that some staff judgment had to be used to make the selections, I feel that on the whole the staff have followed a prudent approach. However, since the aim of this exercise is to reduce the work load on both staff and the Board, I would have preferred to see more countries put on the new consultation procedure.

Second, on the modalities of the new procedure, I agree that the topics to be covered in the simplified interim consultation discussion should be limited but that the staff should provide a sufficiently thorough analysis of main developments and policy changes. For the regular consultation, more emphasis should be placed on the medium-term outlook to help the Board assess the need for policy changes and recommend appropriate corrective measures. I also agree that background papers on recent economic developments could be omitted for the interim consultation. For the regular consultation, I would prefer to see a complete economic and financial report as at present.

With respect to the involvement of the Executive Board, and again in order to be consistent with the aim of this new procedure, which is to reduce the work load of the staff and Board, the appropriate decision would be one which reduces or eliminates some Board discussions. However, as the staff reminds us, according to the procedures for surveillance, "a consultation under Article IV is not completed until conclusions are reached by the Executive Board." In that regard, I share the concern raised this morning by Mr. Salehkhov, and agree that we should not say that an Article IV consultation has been completed until the Board has made known its views on the staff report.

Among the different options suggested by the staff, I can go along with Option 3, provided that the interim report is not called a consultation report. It would be called an interim report and would be circulated for Directors' information. No Board discussion on it will take place unless specifically requested by an Executive Director.

Of course, it is my understanding that this new procedure will be implemented on an experimental basis and will be amended as experience is gained.

Mr. Finaish made the following statement:

We agree with the general purpose of this exercise, which to me is not so much to save time and effort, since we expect the staff and Board's time to continue to be fully employed, even with the suggested changes, but to improve the allocation of our limited resources. A more streamlined surveillance procedure can in fact be more productive to the extent that it will allow the staff and the Board to conduct Article IV consultations in a more focused and hopefully more thoughtful manner.

Regarding the selection of countries for regular annual consultations, we consider the present criteria as generally appropriate; thus, they should be maintained. At the same time, we can see within those criteria a margin of judgment that could be utilized. In this

connection, we can support reducing the number of countries which can be considered as having a substantial impact on other countries from the current 25 largest members of the Fund to the largest 20.

We continue to give weight to the wishes of countries who may not meet the criteria for annual consultations but which nevertheless opt for a 12-month cycle. Such countries should, in my view, be accommodated to the extent possible. This of course assumes that those countries are fully aware of the procedures and implications of the alternative bicyclical consultations.

While we agree that the documentation for the interim consultations should be relatively limited, it is important to keep in mind that in certain cases the staff documents, particularly the background papers on recent economic developments, are the only coherent and periodic sources of economic and financial information. As such, those documents may be of particular value to smaller, less developed countries. Other member countries might also find this documentation useful.

As far as Board involvement in interim consultations under the bicyclical procedure is concerned, we see certain disadvantages or risks associated with each of the three options proposed in the paper. However, on balance we prefer Option 3, which in my view draws the clearest distinction between the regular Article IV consultations, which require Board action, and the interim discussions between the staff and the authorities, reports on which are provided to the Board only for information. In this regard, I think it might be useful to make a distinction in the terminology and refer to the interim discussions as discussions and not consultations, a term that is usually associated with Article IV consultations which, according to the Articles of Agreement, require Board involvement.

Finally, a question has been raised with regard to the consultation with Iraq. This subject has been under discussion between the authorities and the staff.

Mr. de Beaufort Wijnholds made the following statement:

I can accept moving to a 24-month cycle with an interim simplified consultation for countries that do not have a Fund arrangement, that do not have an important global or regional impact, and whose external position is not a cause for serious concern. Several countries in our constituency are on the list of those proposed for the bicyclic consultation procedure and can accept this change. I welcome the fact that the incidence of full Article IV consultations will be reduced by about 15 cases. At the same time, I am a little disappointed in the overall scope and distribution of the application of the bicyclic procedure. While I can accept, although with some

reluctance, that a rather large country such as Austria, with a quota of SDR 775 million, would be placed on a 24-month cycle, I would have hoped that somewhat more countries with small quotas could have been placed on a long cycle. I would appreciate hearing from the staff which countries were proposed to be placed on a longer cycle but were retained on an annual cycle at the request of the authorities.

While we have to respect small developing countries' requests to remain on an annual cycle, we should also guard against an unbalanced use of the bicyclic procedure. The proposal shows that a relatively large number of countries (13) in the European Department are to be placed or are already on a long cycle. And although a lot of hard work is done in the European Department, it is probably not the hardest pressed area department. Furthermore, on the list of countries, I believe, like Mr. Nimatallah, that the existence of four categories of countries with cycles of 12, 18, and 24 months with and without interim consultations, is a bit too much. I would also favor placing those countries now on an 18-month cycle on a 24-month one. At the same time, I wonder whether we should not have a brief interim consultation with a limited number of staff for all countries on a 24-month cycle so as to avoid drawing a somewhat arbitrary and fine line between the two groups of countries on a 24-month cycle.

It is often argued that the Fund's advice is relatively more important for small member countries, and that therefore these countries should also be discussed in the Board regularly. While it is true that the Fund's advice is likely to have more impact in small countries, I would venture to say that what matters most for these countries are the discussions with the mission and the contents of the staff report. The usual short Board discussion on these countries, nowadays conducted largely by temporary alternate executive directors, can hardly be of all that much importance to the authorities.

As to the simplified interim procedure, I agree with the staff's proposals on coverage and reporting. On the involvement of the Board, I can accept, for pragmatic reasons, the second option. It is important that the interim procedure retain the character of a consultation and that the possibility of a Board meeting is left open if so desired.

Mr. Sugita said that basically he could support the staff proposals with respect to both the application of various cycles for individual members and the coverage and content of staff reports and background papers. Like many previous speakers, he felt that the bi-cycle could be applied to a larger number of countries, particularly those that had

reasonably viable balance of payments prospects. But that aspect could be taken up on the occasion of the annual reviews. He also supported Mr. Nimatallah's request to eliminate the 18-month cycle.

As for the Board's involvement, Mr. Sugita said that he could go along with either the second or third option, and had no strong preferences for either.

Mr. Templeman explained that his suggestion that the Board decide on the procedure at the present meeting but not on the list of countries on the bi-cycle had not been meant to result in a major delay. He agreed that it was necessary to move forward with the exercise. It had seemed useful to give the management and staff an opportunity to think about the general and specific suggestions that had been made during the discussion, especially as he understood that not all countries had yet been consulted by the staff and management with respect to the cycle on which they were to be placed. A full decision could then be brought back to the Board within, say, a week or so.

On the question of Option 2 versus Option 3, if he had not already been persuaded of the appropriateness of the third option, Mr. Rebecchini would have convinced him, Mr. Templeman remarked. After all, the interim procedure was intended to be less than a full consultation with the Fund. In the texts proposed by the staff in the annexes to its paper, the two key references were those to "consultations" and to "the Fund." With respect to the former, the staff seemed to be making a distinction between "consultations" and "consultation discussions" in the wording of the two draft cover notes. Of course, it would also be possible to refer to Article IV "interim discussions." As for the reference to the Fund, as others had pointed out, the Fund had always been considered to mean the Board as well as management and staff; and that would not be the case if the consultation with the country in question was not brought to the Board. However, in all three options, the matter would in fact be brought to the Board--under Option 2, by being placed on the tentative agenda, and under Option 3, by being circulated for the information of Executive Directors. The key distinction was that under Option 2, the consultation would be with the Fund, whereas under Option 3, it would be a discussion with staff and management. That distinction seemed appropriate because it indicated clearly that the Board was not fully involved under the third option, whereas it was under the second.

Mr. Nimatallah said that although he had an open mind on Option 2 and Option 3, if the interim consultation was to be considered legally as a regular consultation, it might be better to adopt Option 2, which would require the Board to pass a judgment. The fact that the Board did not meet did not, in his opinion, derogate from its responsibility to be involved.

The staff representative from the Legal Department said that if the Board, or any Executive Director, found anything to object to in a staff report, the matter could be brought to the agenda for discussion under both

Option 2 and Option 3. In that sense, the Board had a responsibility under both options. To make possible the implementation of the second option, the legal solution was to amend the 1977 decision on the procedures for surveillance to allow an interim consultation to be completed without the Board reaching conclusions. However, only under Option 1 would the staff's findings in the report become the conclusions reached by the Board. In his answer to Mr. Nimatallah's question about the manner of the Board's involvement, he had stated that an Executive Director had a duty and responsibility to react under either Option 2 or Option 3 if he found something objectionable in the report. It could be argued that under Option 2, the Board's involvement would be formal, so to say, because under that option there would be an Article IV consultation, although without conclusions reached by the Board on the basic findings in the staff report. Under Option 3 there would be no decision by the Board.

Mr. Nimatallah commented that the formality inherent in Option 2, under which the Board would endorse the report and state that there had been an Article IV consultation of the member with the Fund--and thus the Board--should satisfy those Directors who were seeking such formal endorsement, even in an interim Article IV consultation.

Mr. Templeman said that as he understood it, the Board would be formally involved to a much fuller extent under Option 1. That option, illustrated in Annex I, stated that "the interim consultation will be deemed to have been completed without discussion and the conclusions set forth in the staff appraisal will be deemed to have been approved by the Executive Board." If he had read the texts correctly, the Board was not asked for its approval under Option 2 or Option 3.

The staff representative from the Legal Department noted that there was a difference between Option 1 and Option 2 in the sense mentioned by Mr. Templeman, but there would have been a consultation under Article IV in both cases. Under Option 3, there would have been an interim discussion, but no consultation under Article IV.

Mr. Rebecchini stated that the core of the problem was to be found in the proposal, which was explained on page 7 of SM/87/117, to amend Paragraph II of the Procedures for Surveillance to permit an interim Article IV consultation without formal conclusions by the Executive Board. His chair felt uneasy about the Fund and member holding Article IV consultations--either full or interim--without a formal conclusion by the Executive Board.

The Director of the Exchange and Trade Relations Department commented that it was a difficult time to be considering lengthening the period between some consultations because most member countries were facing external circumstances that were certainly not easy. Of course, shorter staff reports and background papers could also lead to a saving of time for both the Executive Directors and staff, as long as a certain restraint was exercised by Executive Directors, as Mr. Lundstrom had mentioned, in

requesting additional work. The amount of savings provided by the proposed procedure would depend on the duration of consultation visits and the number of staff who went on missions under the procedure. It would be necessary to reach a sensible compromise that would reduce the work load wherever that was possible while ensuring that the essence of surveillance was maintained.

In drawing up the list of countries to which the bicyclic procedure would apply, the staff had been mindful of the need for flexibility and had sought to take a gradualistic approach, the Director noted. It would not be desirable to establish a procedure that made it easier to move countries in one direction than in another; as Mr. Lundstrom had observed, it could be difficult to get off the bi-cycle.

Careful thought would be given to the proposal to phase out the 18-month cycle, the Director added. Although it was possible that surveillance could fall out of line with a country's own policymaking or budget cycle, there were a number of countries--for instance, all the members of the Group of Five--that found it useful to hold discussions some six months into the budget period so that a wide range of policies could be reviewed, at a time when firm decisions did not need to be taken. The alternation of the consultation discussions between a budget cycle and an off-budget cycle had been thought to be a valuable consideration for a number of other countries that had been or were still on an 18-month cycle.

The need at present was for an agreed list of countries to be placed on the bi-cycle, the Director stated. The staff had taken note of the suggestions by Directors, and although it should be possible to come forward with a revised list affecting a few members, it would not be easy to reconcile some of the different views expressed by Directors on the inclusion or exclusion of countries. In addition, as several Directors had emphasized, the views of the country itself needed to be taken into account. In principle, the staff agreed with those Directors who considered it to be particularly important that changes in the list be confined to the regular reviews by the Board in order to avoid the tendency to take ad hoc decisions.

On another matter of principle, the Director of the Exchange and Trade Relations Department said that the staff, when holding consultation discussions with countries, needed the backing of Executive Board consideration of the report. If a member country felt that Executive Directors were not going to consider, and have an opportunity to discuss a staff report, the consultation procedure would lose something of its essence. As the staff representative from the Legal Department had observed, however, under both Option 2 and Option 3 the Board would be involved because it would have the right to ask for a report on a given country to be brought to the agenda.

Mr. Templeman said that what troubled him was the suggestion, reflected in the comments by the staff, that somehow the Board was going to be assumed, by virtue of its silence, to have approved something that it

might neither agree nor disagree with. Of course, the staff had the support of the Board in a general sense, and it would also have the Board's support every 24 months, at a minimum. He wondered whether it would help to resolve the problem if the draft cover note in Annex II describing the process for handling the interim consultation under Option 2 referred to the completion of "interim consultation discussions," rather than to the "interim consultation," in the absence of a request that the matter be taken up in the Board. A certain distinction could then be made.

The staff from the Legal Department responded that in effect, Option 2 would then become Option 3 because there would be a consultation discussion, and not a consultation with the Fund.

Mr. Templeman explained that his concern was with the idea that the opportunity for the Board to raise a matter in the Board could be equated in some way with the endorsement or agreement of the Board--even implicitly--without an occasion to express agreement or agreement during a Board discussion.

The staff representative from the Legal Department agreed that under the more formal procedure under which what were essentially consultation discussions became consultations, the standard of care by the Board would be higher than if the practice was to circulate the staff report for information only. In other words, it could be argued legally that the two procedures involving a decision by the Board--under Option 1 and Option 2--would impose on the Board a higher level of responsibility or duty than Option 3. Whether the differences were of practical significance was a question because in all cases the Executive Directors had a duty to take up a consultation report which was not to their liking.

Mr. Salehkhon said that the exchange of views with the staff led him to believe that his concerns were justified. First of all, lapse of time approval without discussion did not necessarily mean full agreement with the text of the appraisal in the staff report. It meant that Executive Directors were hesitant to ask for a report to be placed on the agenda for discussion of what might be relatively minor points. He failed to understand how the Board could be legally responsible for a report with which it was not in full agreement, even if the disagreement was minor.

As for the third option, the staff report would be circulated for information only, Mr. Salehkhon remarked. Directors' views would be neither sought nor given. The Executive Board would not have a lower level of responsibility under that option; it would have no responsibility at all. Reports circulated under such an option should, as had been suggested by Mr. Ismael, carry a disclaimer to the effect that they were the responsibility of the staff and management.

Mr. Nimatallah recalled that he had mentioned that some Directors presumably might in certain circumstances want to give their comments in writing to the management and staff. In so doing, they would involve the

Board. It would be reasonable for their comments to be incorporated in a final report and consultation. Option 2 had seemed to him to involve the Board more appropriately.

The staff representative from the Legal Department explained that in referring to the responsibility or duty of the Board, he had in mind the duty of the Fund to carry out its surveillance responsibilities under Article IV, and not a report in that context. The Board had a responsibility for conducting Article IV consultations, and for supervising and coordinating the Article IV consultation process, whether the actual discussion of a staff report was involved, or whether a report was circulated for information only. In that same sense, there was little difference between the submission of a report to the Board for the adoption of a procedural decision, as under Option 2, and the submission of a report to the Board for information.

With respect to the responsibility for a particular report, the staff representative from the Legal Department added, under Option 1, the Board would approve the conclusions set forth in a staff report, on a lapse of time basis, and the conclusions of the staff set forth in the staff report then became the conclusions of the Board. That option had not received wide support. Under Option 2, a consultation would be completed. Under Option 3, a report would be submitted for the information of the Executive Directors. After examination of those three options, the Legal Department had found that as a legal matter, a procedure could be followed under which the Board adopted without discussion the findings and conclusions of the staff as its own. The question was whether the Board wished to be associated with such an approach.

Mr. Salehkhov observed that there was thus no difference between the first and third options because the Board's silence indicated approval of the report.

The staff representative from the Legal Department explained that under Option 1, there would be a set of conclusions approved by the Board. Under Options 2 and 3, the conclusions or findings of the staff report would not become the conclusions of the Board.

In response to a further question by Mr. Salehkhov, the staff representative added that whether or not there had been a complete consultation would depend on the definition of a consultation under Article IV. Option 2 would involve the redefinition of a consultation; the previous definition adopted by the Board was that a consultation under Article IV involved an exchange of views with the authorities and conclusions reached by the Executive Board. Because the Board would not reach conclusions, Option 2 would require an amendment of the 1977 decision for a complete Article IV consultation to take place.

Mr. Salehkhov considered that what seemed to be a small change in procedure was a major departure from the traditional consultation process in the sense that only one half of the consultation was carried out. The

member would fulfill its obligation by receiving a staff mission and holding consultation discussions. But neither the member nor the Executive Directors would have any say as to the conclusions of the staff report or the recommendations and decisions in that report. Any legal consequences of those recommendations or decisions would not be the responsibility of the Board or the member, especially under Option 3.

The Chairman observed that the Board could exercise its responsibility under Option 2, if it wished, once the 1977 decision was amended.

Mr. Salehkhoh reiterated that his concern in that respect was a procedural one. During the Board's peak periods of work, Executive Directors might hesitate to request that an item be brought to the agenda, even if they did not agree fully with a staff report. Matters circulated for approval by lapse of time normally tended to be given less attention than matters that were placed on the agenda. A given report might deal with a country that continued to avail itself of the transitional arrangements of Article XIV, and that maintained restrictions that the staff did not submit for approval or nonapproval in a proposed decision. The member country would be left with the impression that the restriction had gone unnoticed, or been implicitly approved. Executive Directors who were not familiar with the legalities of such issues might consider that the matter had not been important enough to receive any attention. Yet experience had shown him that the lack of specific reference to restrictions was to be interpreted as disapproval. To cite but one of the consequences that he had observed during his term of office, a country could be taken to court by some commercial entity for maintaining restrictions in violation of international law. Moreover, certain restrictions might seem fairly unimportant at the time the staff report was issued, yet the staff could later single out a sentence and state that it represented a definitive decision. Mr. Almeida had raised that issue during the previous meeting.

In sum, Mr. Salehkhoh said, the completion of the consultation should take the form of a decision, and not even a summing up, which was not sufficiently clear cut. Apart from the concerns he had mentioned, he was just as anxious as anyone to reduce the work load of the Board and the staff, and to spend as little time in the Board room as possible.

The staff representative from the Legal Department said that he recognized that Mr. Salehkhoh was concerned about the possibility of confusion arising because three consultation procedures were carried out concurrently under the Articles--under Article IV, Article VIII, and Article XIV. He wished to assure the Executive Board that the issue under discussion at the present meeting did not concern the procedures under Article VIII or Article XIV. The sample cover notes in the annexes to SM/87/117 did not deal with the approval of exchange measures or any other exchange practices. It would be recalled that the need for such approvals had been discussed on the previous occasion when the matter had been on the agenda (EBM/87/38 and EBM/87/39, 3/4/87), on the basis of a paper prepared by the Legal Department on the periodicity and form of Article XIV consultations (SM/87/30, 2/4/87). That paper had made it

clear that separate procedures would apply to consultations under Article VIII and Article XIV concurrently with the procedures that had been proposed in SM/87/117 and that were currently being considered by the Executive Board. For that reason, he could assure Mr. Salehkhon that whatever approval was proposed under the contemplated procedures did not pertain to exchange measures, which would be subject to the procedures discussed at EBM/87/38 and EBM/87/39.

Mr. Templeman commented that the staff representative from the Legal Department had made a useful distinction between the need, on the one hand, to make it clear that the Board had met its obligations in terms of finishing the process of surveillance, which the Fund called Article IV, and agreement on substantive findings, on the other hand. He had no problem with concluding that the interim procedure would be finished, under the somewhat different procedure that was being set up. It was the implication that silence meant consent on substance that concerned him. The procedure itself could be constantly undercut whenever Directors perceived a problem with a staff report, since they would feel that they had to bring their concerns before the Executive Board, lest it be understood that they were in complete agreement on points of substance that had not been discussed. His problem could perhaps be solved if a way could be found--if necessary in the summing up or in some other manner--to make a clearer distinction between the fulfillment of the Board's responsibility for surveillance and the Board's agreement on the substance of staff reports.

The Chairman remarked that one possible way of meeting the concern of Mr. Templeman might be for Executive Directors who had even minor problems with a report to explain their reservations in a short note to management. If several such notes were received, management would take the initiative of placing the matter on the agenda.

The Director of the Exchange and Trade Relations Department commented that it would be possible to experiment along the lines suggested by the Chairman. However, he remained unsure that such a clearcut distinction as that drawn by Mr. Templeman could be made between Option 2 and Option 3. As stated on page 8 of SM/87/117, under Option 3 "the reports would not, in the absence of a request for a discussion, be placed on the tentative schedule of Board meetings or on the agenda." That wording led him to reiterate his view that the absence of a decision to bring a report to the agenda at least implied an attitude on the part of the Board.

The staff representative from the Legal Department confirmed that if the Chairman, who was in charge of preparing the agenda of the Executive Board, received information on the basis of which it appeared to him that a report should be placed on the agenda, he could do so notwithstanding the procedures proposed in SM/87/117.

Mr. Salehkhon said that he was not sure that his concern would be met by a procedure under which Executive Directors would inform management of any problems they had with staff reports. Executive Directors tended

to concentrate their attention on members of their own constituency and might overlook, under a lapse of time procedure for approval of reports, a problem arising in another country. Such precedents were at times even more important than decisions, and perhaps even than the Articles, yet they might affect other countries, including countries in the constituency of the Executive Director who had failed to take note of the precedent when it had been established. Any objection on the part of that Director would be useless at that late stage.

An exchange of notes between an Executive Director and the Managing Director would not constitute an objection, nor would it be recorded in the staff report, Mr. Salehkhoh added. The precedent that would be established would be contained in the original staff report, without any reflection of whatever comments were made in the absence of a discussion, without which, of course, there would be no summing up.

The Chairman observed that staff papers were given a very wide distribution and an important point was hardly likely to escape the attention of the Executive Board at large. The new procedures, amended along the lines of the discussion, seemed to offer as much protection as the previous ones, and would save money and time.

The Secretary confirmed that all decisions, including those taken by lapse of time, were recorded in the minutes. Therefore, reservations by Executive Directors, in the form of notes to the Managing Director, could be appended to the decisions in the record.

Mr. Templeman considered that the main problem with such a procedure for expressing, and perhaps recording, reservations, was that it could in no way commit the Board. It was not within the power of any individual Director to commit the Board by such action.

Mr. Massé said that he had been persuaded by the discussion that Option 3 was better than Option 2. He would have some objection to the change in the definition of a consultation that was implied under Option 2. Option 3 raised no such problem because it would involve only management and staff, and the consultation would be considered a simplified interim one rather than a consultation with the Fund. As suggested by the Chairman, the Board could always mention any problems that it had with a report. The gist of the new procedures was that there was no need for an annual consultation in the traditional sense with some countries.

Mr. Salehkhoh remarked that he agreed with Mr. Massé that under Option 3 the Fund was providing at best technical assistance in the form of a consultation of the member with the management and staff. The Board accepted no legal or other responsibilities.

Mr. Rebecchini suggested that the issue could be further clarified if the term interim discussion was used, and the word consultation avoided.

The Chairman remarked that it remained to be seen whether that definition of the interim procedure would be agreed.

Mr. Wijnholds said that he would be opposed to avoiding all references to a consultation. He was also opposed to Option 3.

Mr. Nimatallah remarked that although it would be desirable to reach a conclusion, it seemed necessary to give further thought to some of the issues that had been raised during the discussion before a decision was reached. It would be helpful if the Legal Department could elaborate further in writing on the issue of whether the Executive Board could, even though it had no involvement, be considered as having held a discussion.

The Chairman responded that he too would prefer not to revert to the issue but in recognition of the concerns of some Directors and in order to take account in the summing up of the views that had been expressed, he proposed that the staff should prepare a short paper clarifying the legal issue that had been raised. He hoped that the matter could be taken up again without delay, and that the procedures could be introduced on an experimental basis, to be reviewed in March 1988 on the occasion of the review of the procedures for surveillance.

Mr. Templeman commented that he was in favor of such a delay, which would also enable the staff and management to consider the question of the various lists on which different countries should be placed.

Mr. Dai said that it would be helpful, before the Board reconsidered the extent of its involvement in the interim consultations, to learn from the staff whether there was any difference in substance between regular and interim consultations.

The staff representative from the Legal Department responded that, with one qualification concerning the saving of staff time, the reports prepared by the staff would be the same for the regular bi-annual consultation and for the interim consultations. The difference would be in terms of the outcome as far as the Board procedures were concerned.

In response to a question by the Chairman, the staff representative from the Legal Department noted that the purpose of the report would depend on the final decision. In other words, a consultation discussion report would become a report for consultations under Option 1 and Option 2; under Option 3, the same report would be prepared although the outcome of the procedure would not be a consultation.

The Chairman stated that the answer to Mr. Dai's question was that Options 1 and 2 were very similar: in both cases there would be consultations.

The Executive Directors adjourned for the time being their consideration of consultation procedures.

APPROVED: December 15, 1987

LEO VAN HOUTVEN
Secretary