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To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 91/95

The following correction has been made in the final minutes of EBM/91/95 (7/19/91):

Page 3, item 1, line 3: for "SM/91/118, 7/17/91;"
read "EBS/91/118, 7/17/91;"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

1. ECUADOR - 1991 ARTICLE IV CONSULTATION

The Executive Directors, meeting in restricted session, considered the staff report for the 1991 Article IV consultation with Ecuador (SM/91/106, 5/20/91; EBS/91/118, 7/17/91; and Cor. 1, 7/18/91). They also had before them a background paper on recent economic developments in Ecuador (SM/91/116, 6/5/91).

2. CONDITIONALITY IN FUND-SUPPORTED ADJUSTMENT PROGRAMS - ISSUES AND REVIEW OF EXPERIENCE

The Executive Directors considered a staff paper on selected aspects of conditionality under stand-by and extended arrangements (EBS/91/101, 6/20/91; and Sup. 1, 7/2/91), together with a paper on selected operational issues related to the use of Fund resources (EBS/91/108, 7/3/91; and Cor. 1, 7/3/91). They also had before them a staff paper on public expenditure management processes and fiscal conditionality (SM/91/136, 7/5/91).

Mr. Kyriazidis made the following statement:

The assessment of practical experience in the implementation of adjustment programs and the conditionality attached to them are a matter of crucial importance to this institution. Programs and conditionality are the major instruments through which the Fund ensures that its resources are used effectively in the promotion of its major objective--the achievement and maintenance of stability and growth in an open trade and payments system. These are also the instruments that the Fund has to use in order to protect its financial integrity, while assisting through its resources and expertise those of its members who need its support. It is thus a matter of priority that the quality and effectiveness of the programs be kept under review, as well as the appropriateness and efficacy of the conditionality attached to them.

The papers prepared by the staff for the current review are extremely informative and instructive, although perhaps, through no fault of the staff, on the voluminous side. In response to the wishes expressed by a number of members of the Board at the last review (EBM/89/76 and EBM/89/77, 6/19/89), the focus has been shifted from a series of selected case studies to a cross-country presentation of results on a target-to-outturn basis, leading to some tentative general conclusions which, however, have to be heavily qualified because of the weaknesses and gaps inherent in the method. Thus, it is difficult to establish causal relationships, just as it is difficult to assess to what extent weak performance is due to policy slippages or to weaknesses in program design.

As a general rule, the essential prerequisite for the approval of a program should be, in addition to its quality and strength, a reasonable degree of certainty as to the full commitment of the borrowing country to its sustained implementation. Of course, this is bound to be a judgmental decision based on the track record and the actions of the authorities concerned before the arrangement is in place, as well as the political context in which the program is to be introduced. Even the best programs in an uncertain political environment are bound to lead to disappointing performance. It would, therefore, be of great assistance to the Board if the staff provided a history, as well as an assessment, of the risks involved in each program we are about to undertake.

The general conclusion that can be drawn from the papers--and this is in no way unexpected--is that the review confirms the need for comprehensive programs covering a consistent set of macroeconomic policies combined with structural reforms where underlying structural imbalances or institutional weaknesses can affect the sustainability of macroeconomic policy and the effectiveness of the relevant policy instruments.

The overall results as presented by the staff, although indicating some improvement in comparison with the early to mid-1980s, cannot, of course, be considered as entirely satisfactory. They do indicate, however, that although the general thrust of the programs has been broadly appropriate, the overall performance record could and should be improved with better policy implementation, as well as improvements in the understanding of certain critical relationships between fiscal and credit policies and macroeconomic and growth objectives, and a proper assessment of the need for structural reform in order to improve the efficacy of policies. More specific information on all these aspects is needed for the Board to arrive at a proper judgment. I agree, therefore, with the staff proposal for further analytical study of critical relationships in time for our next conditionality review. However, I believe that the staff can introduce, without waiting for the results of these studies, in addition to the assessment of the risks involved as an important element in program formulation, a careful assessment of the economy's growth prospects, taking into account to the extent possible the interaction between structural and macroeconomic policies and economic growth.

The review also confirms the view which we supported in the past that contingency mechanisms outside the contingency financing facility should continue to be included in programs, where appropriate, in order to avert the risk of the program being pushed off track as a result of external shocks. These mechanisms should continue to be designed on a case-by-case basis. In this