

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/84

3:00 p.m., May 30, 1990

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

Executive Directors

G. K. Arora
C. S. Clark
Dai Q.
T. C. Dawson

E. A. Evans

M. Finaish

J. E. Ismael
A. Kafka

G. A. Posthumus

Alternate Executive Directors

L. E. N. Fernando
C. Enoch

J. Prader
J. A. K. Munthali, Temporary

R. J. Lombardo
A. Napky, Temporary
N. Kyriazidis
A. M. Othman
I. H. Thorláksson
O. Kabbaj
B. Goos
T. Sirivedhin

J.-F. Cirelli
B. A. Sarr, Temporary
M. Al-Jasser
G. P. J. Hogeweg
S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
M. Primorac, Assistant

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Assistants - Grading. Page 50
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Also Present

Administration Department: H. J. O. Struckmeyer, Deputy Director; T. Cole, H. Wiesner, L. A. Wolfe. African Department: M. Touré, Counsellor and Director. European Department: P. B. de Fontenay, Deputy Director; J. S. Bhandari. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; E. Brau, H. M. Flickenschild, G. R. Kincaid, J. P. Pujol, M. Shadman-Valavi, B. C. Stuart. Fiscal Affairs Department: V. Tanzi, Director; K.-Y. Chu, K. M. Miranda. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Münzberg, Deputy General Counsel. Middle Eastern Department: F. Drees. Research Department: J. A. Frenkel, Economic Counsellor and Director; M. Goldstein, Deputy Director; B. B. Aghevli, J. M. Boughton, D. T. Coe, M. P. Dooley, G. Hacche, Y. Harada, P. Isard, N. M. Kaibni, P. Wickham. Secretary's Department: C. Brachet, Deputy Secretary; J. W. Lang, Jr., Deputy Secretary; G. Djeddaoui, R. S. Franklin, A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; D. Gupta. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Bureau of Statistics: D. J. Donovan, Deputy Director. Special Advisor to the Deputy Managing Director: W. A. Beveridge. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. A. Ahmed, M. B. Chatah, B. S. Newman, F. A. Quirós, A. Raza. Assistants to Executive Directors: C. Björklund, S. B. Creane, S. K. Fayyad, B. R. Fuleihan, S. Gurumurthi, O. A. Himani, K. Ichikawa, M. E. F. Jones, R. Marino, H.-J. Scheid, M. J. Shaffrey, Wang J., J. C. Westerweel.

1. WORK PROGRAM

The Executive Directors considered the work program (Secretary's Circular No. 90/34, Rev. 1, 5/25/90) for the coming several months, together with a tentative schedule of Executive Board meetings.

The Managing Director made the following statement:

The important understandings reached by the Interim Committee earlier this week with regard to the completion of the Ninth General Review of Quotas and to the arrears strategy--issues to which, for a prolonged period of time, we have devoted considerable staff resources and Board discussions--are very much welcomed. These understandings will greatly strengthen the Fund as the central institution in the international monetary system and in discharging its operational responsibilities toward its members. Our immediate priority is to give effect to the understandings reached in the Interim Committee as reflected in its communiqué.

Thereafter, our attention should focus on our operational work, particularly on country matters. The number of member countries using Fund resources is higher than ever and continues to grow. Issues of external indebtedness and fundamental economic reform command our increasing attention. At the same time, we must endeavor to improve further the quality and effectiveness of bilateral and multilateral surveillance. Our technical assistance activities are increasingly geared to support country operational work. The staff research activities will be oriented toward country operations and program design and will also focus on systemic issues such as exchange rate policy and exchange rate systems.

This statement focuses on work priorities until the Annual Meetings. In its preparation, I have also been guided by the communiqué of the Development Committee and I have kept very much in mind the thrust of the recent Board discussion on the administrative budget, calling for a rigorous setting of work priorities and for tailoring our tasks to the limited resources that are available. May I suggest that we exchange views on this work program statement on a date to be agreed.

I. Implementation of the Interim Committee Understandings

1. Ninth General Review of Quotas

Following the instruction of the Interim Committee, we should set ourselves a deadline of May 25 to submit the Board's report and the draft Resolution on the Ninth Review to the Board of Governors for final decision by the deadline of June 30, 1990.

The necessary documentation to that effect, including tables providing individual quotas, will be circulated by May 16 for Board consideration on May 21.

We also need to formalize in an Executive Board decision, before June 30, 1990, the understanding of the Interim Committee that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas becomes effective. A paper on this subject will be issued by May 25 for Board decision.

2. The arrears strategy

The Interim Committee has endorsed the cooperative arrears strategy, including the rights approach. Our task now is to ensure its implementation. We should intensify our efforts to clear up existing protracted arrears cases over the next two to three years, in the expectation that members in arrears will have settled their overdue obligations or adopted a Fund-monitored program, supported if necessary by the rights approach, before the deadline of the Spring 1991 Interim Committee meeting.

Among the policy issues to be considered by the Board are the following:

(a) Amendment of the Articles

The Interim Committee has invited the Executive Board to propose to the Board of Governors by end-May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights of members that do not fulfill their obligations under the Articles. The provision for suspension would be activated by a 70 percent majority of the total voting power in the Executive Board. The amendment will be proposed to the Board of Governors in a draft resolution separate from the draft resolution on the quota increase. It was also agreed that no increase in quota shall become effective before the effective date of such an amendment, and that every effort should be made by members to ensure that both the quota increase and the amendment shall be effective before end-1991. It is an essential aspect of the understandings on the arrears strategy that activation of suspension would only be considered in the rare case of a persistent failure of a member to comply with its obligations under the Articles. It remains our common desire to avoid such a situation.

Further staff documentation on the suspension amendment will be prepared for Board consideration on May 18, to be concluded, if necessary, on May 23, so as to submit the Executive Board's report

and proposed resolution for adoption by the Board of Governors by end-June 1990.

(b) The rights approach

In the context of the Interim Committee's endorsement of the "rights" approach, it has been agreed to use enhanced structural adjustment facility, general resources account resources, or an appropriate blend of these resources in the financing to be provided to enhanced structural adjustment facility-eligible members, after they will have cleared their arrears to the Fund. The Interim Committee also concurred with the proposal that the Fund pledge use of up to 3 million ounces of gold, if needed, as additional security for use of enhanced structural adjustment facility resources. The staff is preparing for Board consideration a paper on the operational aspects of the "rights" approach and a paper on the modalities of the gold pledge. These papers could be considered by the Board on June 18.

(c) Burden sharing

The Committee also endorsed an extension of the Fund's mechanisms for the sharing of burdens associated with overdue obligations among creditor and debtor members. This extension, which would be reviewed annually, would accumulate SDR 1 billion over approximately five years, financed by a further adjustment of 0.35 percent to the rate of charge and, subject to the limit in the Articles of Agreement, a further adjustment to the rate of remuneration to yield three times the amount generated by the further adjustment to the rate of charge. A staff paper to establish the new special contingency account (SCA-2) effective July 1, 1990, will be submitted for Board consideration on June 20. In that connection, it is proposed that the Board consider on June 4 the disposition of the Fund's net income for FY 1990 and the setting of the rate of charge for FY 1991.

A staff paper will be prepared to consider further the proposal under which individual contributors under the existing mechanism for coverage of deferred charges would agree that accumulated balances be retained temporarily in the Fund following settlement of those deferred charges. I propose that the Board discuss this matter in July.

We will also need to consider further how to give effect to the Arora proposal for voluntary contributions by members whose contributions under these mechanisms are not commensurate with those of member countries participating in burden sharing. The Interim Committee endorsed this proposal as fully in keeping with the cooperative nature of the Fund and has called upon those

members ready to make such contributions to do so expeditiously. A staff paper on this matter would be ready for Board consideration in July.

II. Other Principal Elements of the Work Program

1. Country-related activities

In addition to the flow of Article IV consultations and reviews of programs, it is expected that an increasing number of Fund-supported programs will be presented for Board consideration. Work on the economies of Central and Eastern Europe will continue to absorb a considerable amount of resources of the area, functional, and technical assistance departments. Recent and prospective requests for Fund membership will also add to the work load. In that connection, Executive Board committees to deal with individual applications for Fund membership will be established as appropriate.

The tentative timing of the work program relating to Article IV consultations and reviews under structural adjustment facility, enhanced structural adjustment facility, stand-by, or extended arrangements is summarized in Attachments III and IV. It is anticipated that, in the months through September 1990, some 66 staff reports for consultations under Article IV (including 8 interim consultations under the bicyclic procedure) will be issued. The expected number of Board discussions of consultation reports before the Annual Meetings is similar to that presented for comparable periods in recent work programs. These projections do not as yet reflect the potential impact on the work load of any changes in the implementation of surveillance procedures that may result from the Board discussion on the biennial review of surveillance, scheduled on June 8.

Also during the period to end-September 1990, area departments' projections indicate that around 20 requests for use of Fund resources may be brought to the Board. Of these, about one half would be for stand-by or extended arrangements; the remainder would be mainly for arrangements under the structural and enhanced structural adjustment facilities. In addition, about 23 reviews under existing arrangements are expected to be brought to the Board's agenda in that period. We will continue the practice of combining requests for use of Fund resources and scheduled reviews with Article IV consultations whenever feasible.

2. Surveillance, world economic outlook, and international capital flows

A paper on the biennial review of the implementation of the Fund's surveillance over members' exchange rate policies and of the 1977 surveillance decision is scheduled for Executive Board discussion on June 8.

The summer 1990 world economic outlook report will as usual review recent trends and assess short-term prospects in the world economy. Short-term projections will be updated and alternative medium-term scenarios will continue to be used to assist in analyzing and understanding the international implications of major economic developments and policy initiatives. The analysis for the world economic outlook will continue to focus on structural issues and on enhancing the Fund's contribution to the process of policy coordination. Particular attention will also be devoted, inter alia, to analyzing developments in Central and Eastern Europe and their international repercussions, and to the longer-term evolution of potential output and productivity in the major industrial countries. Executive Board discussion of the world economic outlook papers could take place on September 5, to be concluded on September 7.

The staff has been carrying out a study on the determinants and systemic consequences of international capital flows, which should be available for Board discussion in late July. In addition, the work of the newly established working party on the measurement of international capital flows is continuing.

3. International monetary system and exchange rate policy

In its communiqué, the Interim Committee has encouraged the Executive Board to continue its analysis of key issues in the functioning of the international monetary system. The paper on major issues in the evolving international monetary system (EBS/90/15), which was circulated in early 1990, is scheduled to be discussed at a Board seminar on June 6. The staff is preparing a buff statement for that seminar, which will address several exchange rate system issues associated with recent developments in Central and Eastern Europe and with plans for economic and monetary union for the European Community. Work on the international monetary system would continue in the second half of FY 1991 with increasing attention given to conceptual issues associated with economic and monetary unions.

The study of CFA franc zone arrangements could be scheduled for discussion in seminar form in July or August. Two further papers are being prepared in the area of exchange rate policy:

namely, a review of exchange rate policy advice in Article IV consultations and one on issues in exchange rate policy for developing countries. These studies could be brought to the agenda before the Board's recess in August.

We shall continue our periodic informal sessions on exchange rate developments and the next could be held on June 6. Further sessions could be scheduled in late July, and on September 5, in conjunction with the world economic outlook discussion.

4. Management of the debt situation

In the period ahead, we will continue to follow closely developments under the debt strategy, including in the context of reviewing individual country cases, and we shall need to devote particular attention to operational and policy issues arising from its implementation. The Interim Committee had an interesting discussion on the debt strategy in which suggestions were made and questions raised that will stimulate further reflection on our part. A paper on the management of the debt situation, together with relevant material on recent developments in capital market financing to developing countries, could be considered by the Board in late August 1990.

The staff will also continue its analytical work on debt issues, focusing on the relationship between domestic and external debts and on the effects of debt reduction strategies on investment and economic growth. A paper on domestic public debt of externally indebted developing countries could be scheduled for Board discussion in the second half of July. The staff will also prepare for Board discussion in October a paper on analytical issues in forecasting financial requirements in the context of adjustment programs with debt and debt-service reduction. This paper would explore ways of extending the staff's traditional analysis of problems confronting debtor countries.

5. Use of Fund resources, conditionality and design of Fund policy advice

A review of the operations of the structural and enhanced structural adjustment facilities and the ESAF Trust is to be carried out by June 30, 1990. The review will cover the operational issues relating to these facilities, including their resources, access limits, conditionality, and monitoring. In conjunction with this review, issues relating to cooperation between the Fund, the Bank, and the donor community would be addressed, based on the paper on policy orientation and official balance of payments assistance of bilateral and multilateral aid agencies (SM/89/252) that was issued in late 1989.

We still need to complete the review of the compensatory and contingency financing facility, which would include a discussion of the phasing and conditionality associated with the compensatory element of the compensatory and contingency financing facility. Background material for this discussion, which could take place in June, is being prepared by the staff.

I propose that the Board consider the next periodic review of conditionality after the Annual Meetings, in early December. The review could focus on upper credit tranche stand-by and extended arrangements approved in 1985-87. We will also need to consider issues related to the prolonged use of Fund resources.

The staff is also continuing its research into analytical and empirical issues in the design of Fund policy advice. A number of ongoing studies will focus on the reform process in East European countries. These studies will appear primarily in the form of working papers. The papers on tax harmonization in the European Communities (SM/89/211) and on international coordination of tax policies (SM/89/212), which were issued last October, could be scheduled for Board discussion in July.

6. Operational matters

Continuing the practice of recent years, the drafts of the Annual Report and a draft press summary will be circulated for consideration by the Committee of the Whole of the Executive Board in June/July 1990, to be subsequently approved by the Executive Board--in the usual fashion on a lapse of time basis--by July 24.

The paper on calculation of currency amounts under the operational budgets (EBS/90/66), together with the recently issued paper on legal aspects of the selection of currencies under Article V, Section 3(d) (EBS/90/87), is scheduled for Board discussion on May 18. The operational budgets and designation plans for the quarters starting June 1990, September 1990, December 1990, and March 1991 are expected to be issued toward the end-of each month preceding the start of each quarter.

Board consideration of the semiannual review of the Fund's liquidity position and financing needs will be held prior to the Annual Meetings, possibly in early September. In the absence of new borrowing, the paper on the Fund's liquidity would include proposals for the terms under which ordinary resources would be used in substitution for borrowed resources after the latter will have been fully disbursed by early 1991 as currently projected.

A paper providing the basis for the five-yearly review by the Board of the valuation of the SDR (which is to be completed by

end-1990) is proposed for discussion in mid-July. This paper will also review the SDR interest rate. A paper on the transition to the new SDR basket to be effective January 1, 1991 would be issued in December 1990.

Progress reports on the Uruguay Round, a paper on Fund/GATT collaboration, and a comprehensive review of trade policies with special consideration of developments in Eastern Europe and the implications of the Uruguay Round will be made available as appropriate.

7. Development Committee agenda

The Development Committee agenda for its meetings in September 1990 and the spring of 1991 is very heavy. For its September meeting, the Committee agreed: (i) to discuss strategies for the effective reduction of poverty in the 1990s in the light of an issues paper based on the Bank's forthcoming World Development Report on poverty and a contribution from the Fund; (ii) to continue its review of the debt strategy and its impact on the development prospects of all severely indebted countries with the assistance of documentation prepared by the Bank and the Fund; (iii) to give full consideration to the economic role of women in development; (iv) to consider further environmental issues; and (v) to review the implementation of the Bank's action plan for private sector development.

In addition, the Committee asked the staffs of the Bank and the Fund to continue to analyze the debt problems of severely indebted middle-income countries, including those with significant official debt, and to undertake an evaluation of the benefits of the debt relief and other measures taken so far in favor of the severely indebted low-income countries. The Committee also asked the Bank, in consultation with the regional development banks, to review the current policies and procedures for handling overdues and to present a report to the Committee at its next meeting. The Committee also requested to be kept informed of the progress in respect of long-term strategic agenda for development in sub-Saharan Africa, and of progress on the issues of capital of the IFC.

For the spring 1991 meeting of the Development Committee, the staffs of the two institutions have been requested to prepare a progress report on the impact of industrial countries' trade, agricultural, and industrial policies on developing countries. Also, the Committee reiterated its call on the Bank and the Fund to keep under study, in close consultation with the GATT, the implications of regional trading arrangements for developing

countries' economic prospects for consideration at a future meeting.

We will have to be heavily involved in most of these studies, which place severe additional burden on our limited resources. Ways should be found to keep the staff work for the Development Committee to a manageable level. I would appreciate receiving the support of the members of the Executive Board to this end.

8. Administrative matters

Among the items requiring Board attention in the next few months are the quadrennial survey of benefits and the review of the Medical Benefits Plan. In addition, a further paper on the establishment of an Administrative Tribunal, including a draft statute, will be circulated for Board discussion in July 1990.

Mr. Al-Jasser made the following statement:

I welcome the balanced and well-thought-out work program, which attempts to address our work priorities adequately, despite the limited resources available. It is particularly refreshing to have before us a work program that is not heavily burdened by quota discussions.

Regarding country-related activities, given the heavy work load before us, it is important to exert greater effort in combining requests for the use of Fund resources and scheduled reviews with Article IV consultations. In this context, I would like to re-emphasize the necessity of explicitly addressing regional considerations and the coordination of structural and financial policies when providing advice under Article IV consultations or program reviews.

The benefits of policy coordination are well known. Therefore, consideration of the coordination of structural and financial policies should be incorporated in the Fund's bilateral as well as multilateral surveillance. Hence, I welcome the Chairman's emphasis on the analysis of structural issues in the world economic outlook, which I believe should be deepened, with particular emphasis on the role of structural reform in the process of policy coordination. Coordination of structural reforms is critical for the maintenance of sustained global growth and provides the best guarantee against a slowdown in the world economy.

In addition, I welcome the intention to provide particular attention in the world economic outlook to the international

repercussions of economic developments in Central and Eastern Europe. I trust that this analysis will include a detailed discussion of the potential ramifications for developing countries in light of the shortage in global savings.

The Interim Committee has emphasized the significance of the forthcoming European integration in 1992 as well as the prospective reunification of Germany. Therefore, it would be helpful if the staff would prepare a paper for discussion, perhaps in a seminar format, of the implications of these changes for the world economy and multilateral surveillance in general.

Moving to the international monetary system and exchange rate policy paper, I look forward to the Executive Board seminar on June 6. I am also happy to note that we will review the exchange rate policy advice in Article IV consultations, which this chair has called for on several occasions. The lessons that we draw from this discussion and the discussion on issues in exchange rate policy for developing countries should be explicitly incorporated into our deliberations on conditionality and in the design of Fund policy advice.

With respect to the discussion on the use of Fund resources, conditionality, and the design of Fund policy advice, while I look forward to our review of conditionality in early December, I would emphasize the importance of concentrating the next review on selected issues in adjustment in greater depth. In this regard, the effects of sequencing and phasing of adjustment policies should be the central feature of the forthcoming conditionality review. Furthermore, in light of the revolving character of Fund resources, I feel that it is timely to consider seriously issues related to the prolonged use of Fund resources. I also encourage the continuation of staff research into analytical and empirical issues in the design of Fund policy advice.

Regarding operational matters, I recall that in our last review of the Fund's liquidity and financing needs it was agreed that the Board would revisit the methodological issues involved in the determination of the Fund's liquidity. This could be done at the forthcoming review in September.

I note the absence of any mention of the request by several Directors for a paper reviewing the pros and cons of an independent evaluation unit. I believe that such a paper could prove useful.

Still on operational matters, I am again disappointed by the lack of weight and importance given in the work program to trade issues. One cannot overemphasize the importance of trade issues,

not merely for Fund/GATT relations, but, more important, for the successful conduct of Fund surveillance and the resolution of the debt problem. Consequently, a more concrete timetable regarding the comprehensive review of trade policies in the design of Fund programs is warranted. This is also directly relevant to the work of the Development Committee, since the impact both of industrial countries' trade, agricultural, and industrial policies, and of regional trading arrangements have significant implications for the success or failure of Fund adjustment programs.

Finally, I hope that all future Development Committee papers that involve the Fund and Bank staffs will be joint papers.

Mr. Yoshikuni made the following statement:

I found the Chairman's statement to be well balanced and helpful for the discussion today. I am in basic agreement with the elaboration of the work program and will comment only on some particular points.

I welcome the Board's completion of the two resolutions that followed the important understandings reached by the Interim Committee. The Ninth General Review of Quotas, along with the arrears strategy, has been one of the most difficult and complicated discussions in the Board's history. My authorities greatly appreciated the Chairman's determined efforts in that process. Nevertheless, there are still outstanding issues related to the arrears strategy, and it is of immediate priority to conclude them at the earliest possible stage.

Before discussing the work program on the arrears strategy, I note that the paper on the enlarged access policy has not yet been issued, although the Chairman's statement indicated that it would be issued on May 25. The staff may wish to explain the reason for the delay.

The two outstanding issues of the arrears strategy are the formalization of the agreements on the rights approach and on the extension of burden sharing in Executive Board decisions. Although the discussion on the rights approach has been tentatively set for June 18, I believe that in view of the substantial progress made on this matter prior to the Interim Committee, it could be brought to the Board at an earlier date. An early conclusion to this important element of the package would contribute greatly to facilitating our Governors' decisions on quotas and the amendment of the Articles. Another important element of the understandings by the Interim Committee is the sale of gold, which is closely related to the review of the structural adjustment

facility, the enhanced structural adjustment facility, and the ESAF Trust. I hope that this review can be completed within the same time frame as the rights approach decision.

As to the extension of burden sharing, I am of the view that the Board has already reached basic agreement on the thrust of the new special contingent (SCA-2) and that it is possible for us to expedite our discussion. I would also recommend earlier discussion of this matter in order to facilitate the Board of Governors' decision on the amendment of the Articles.

This being said, I wish to reiterate my reservations about the retention of deferred charges. The issue is closely related to individual countries' legal and accounting systems, and if the Board still wishes to raise it, it should provide a workable time frame that would allow careful consideration by each member. It may be too soon to take up this issue in July.

Let me turn now to the other elements of the work program. First, on multilateral surveillance, I reiterate our concern over the proposed focus on potential output and productivity. On a previous occasion, this chair raised doubts about the effectiveness of econometric techniques in incorporating appropriately the structural differences among member countries--in particular, differences in employment practices--into the work of estimating potential output. While the spring world economic outlook exercise conducted a study on the structural and macroeconomic implications of population aging, we are doubtful whether further study (beyond this attempt) would be feasible or meaningful in view of the risk that estimates based on certain assumptions may result in misleading conclusions. We also need to be somewhat cautious about the Fund's involvement in policy coordination. While my authorities are keenly aware of the importance of policy coordination, they are also conscious of the sensitivity and difficulties surrounding this issue, as policy coordination has to be based on actual policy developments in member countries. In particular, the policy coordination of structural policies is not an easy task, as such policies often reflect individual countries' inherent socioeconomic structures. Thus, in enhancing the Fund's contribution to the policy coordination process, we should avoid the risk that any attempt by the Fund may become less productive, in particular in the case of structural policies, unless it pays due attention to actual policy developments.

As to the proposed Executive Board seminar on major issues in the evolving international monetary system, I would like to request that the circulation of the staff paper and related documents be restricted in order to prevent any leaks to the press, since the seminar would include discussions on

market-sensitive issues such as the management of exchange rates. The same consideration could be made for the other two documents on the CFA franc and the exchange rate policy for the developing countries.

Turning to the management of the debt situation, I firmly believe that the Fund has been playing, and must continue to play, an important role in the debt strategy. The proposal to pay particular attention to operational and policy issues seems appropriate, and I hope that our study will lead to another important contribution by the Fund.

With regard to the use of Fund resources, we are expected first to deal with the review of the structural and enhanced structural adjustment facilities. In view of the significant implications of the rights approach, including the sale of gold, on this review, we cannot commence the review prior to the implementation of the rights approach. However, we hope that it can be conducted in the same time frame as the rights approach discussion.

We can go along with the proposal to have the review of conditionality in early December. Having said this, I would appreciate it if the Managing Director could express his preliminary views on this subject at an early stage. Also, in my view, capital repatriation and the enhancement of foreign direct investment, as well as the prolonged use of Fund resources, should be taken up in this review.

On operational matters, I have little to add to the Chairman's statement. However, in view of the close relationship between the operational budget and burden sharing, a further delay in the review of the operational budget is not appropriate.

Finally, we share the Chairman's concern about the increase in the staff's work load as a result of the Development Committee's requests. In order to keep the work load to a manageable level, we should at least avoid duplication between the Interim and Development Committees, as this chair has repeatedly stressed. Also, in order to maintain the quality of the Fund's own mandatory work, the staff should prepare a factual and short joint report in cooperation with the Bank staff and should avoid extensively involving the Executive Board. In this connection, I would stress that while the Development Committee seems to be interested in an analysis of debt relief on official debt, the Fund's contribution should be no more than a short and factual analysis, in view of the Fund's limited role in this area, for which the Paris Club is primarily responsible.

Mr. Goos noted that the program for June contained a formidable concentration of agenda items, and suggested that the agenda for that month be diluted somewhat by postponing agenda items that were of lesser priority or even dropping certain items, such as the consideration of European Communities tax harmonization envisaged for July. As the agenda currently stood, time was not sufficient for Directors to develop well-considered views and recommendations.

The short circulation period of papers, particularly recently, was also of concern, Mr. Goos continued. For example, a paper on the Fund's income position had just been issued and was expected to be discussed in three working days' time. He would prefer that the discussion be postponed from June 4 to June 8, when the agenda was fairly light.

He supported the Chairman's desire to keep the staff work for the Development Committee to a manageable level, Mr. Goos indicated. There was indeed scope for reducing the burden of the work load on the staff, in particular in areas where there was duplication of work--for example, in the area of the debt strategy. It did not make sense to ask the Fund staff to write an additional paper with the World Bank staff when a full-fledged paper and discussion were already planned for the Fund Board.

Otherwise, Mr. Goos concluded, he found the work program to be very well considered. It covered all the important points, and he could support it.

Mr. Dawson made the following statement:

I note that the focus but not volume of work load has changed with the successful conclusion of the quota/arrears negotiations.

With the quota resolution now before the Board of Governors, the ball is in the court of our authorities to implement the agreement as quickly as possible. My authorities have already begun consultations with Congress and fully expect to submit legislation as soon as practical. However, it may be possible to act sooner depending on the outcome of the current negotiations between the Administration and Congress on the fiscal year 1991 budget. We attach considerable importance to the timely implementation of the quota/arrears agreement and therefore are planning to submit the issues of quotas, arrears, and gold in a single legislative package to facilitate Congressional action.

I agree on the desirability of clearing up existing arrears cases as quickly as possible. The case of Guyana is a good beginning and we hope it will be followed shortly by others. For example, I believe we are very close to an agreement on Honduras. The passage of legislation providing substantial U.S. assistance for Panama, including \$130 million in direct U.S. support for

clearing arrears to international financial institutions, will enable us to move ahead once agreement on a Fund program has been reached.

We need to move quickly to complete arrangements for the rights approach so that eligible arrears countries will be able to sign up as early as possible. This is especially important in Zambia, where donors, the Paris Club, and other international financial institutions are being asked to provide substantial assistance.

The Executive Board is scheduled to consider a number of issues related to burden sharing, including the arrangements for SCA-2, the use of currencies in the operational budget, the rate of charge for fiscal 1991, the disposition of SCA-1 resources, and the Arora proposal. It might facilitate the Board's decisions if these issues could be considered as close together as possible since action on one could affect the outcome of the others.

I have expressed interest on a number of occasions in having an Executive Board discussion of German monetary unification. Therefore, I was surprised that the work program appears either to have overlooked this issue or subsumed it in other topics. Consequently, I would like to suggest an approach that would give this topic at least as much attention as the CFA zone.

As a first step, it would be useful to have the staff prepare a comprehensive paper on the main elements of German economic and monetary unification and the key issues for German economic prospects and policies in particular and for Europe and the world economy more generally. While some of these issues will undoubtedly be important elements of the scheduled Article IV consultations with Germany, German economic and monetary unification has broader systemic implications that should also be considered. The forthcoming discussion of the evolving international monetary system and the world economic outlook provide an opportunity to examine certain aspects of German economic and monetary unification, although I expect that the focus of those meetings will be on other issues.

Therefore, I would suggest as a high priority a separate Board discussion devoted solely to the implications of German economic and monetary unification for global growth and inflation, balance of payments adjustment, and exchange rate stability. This would provide an opportunity for a comprehensive examination of German economic and monetary unification.

I look forward to the surveillance review and hope that the staff paper will include suggestions on how the Fund could help to improve international economic policy coordination.

The discussion of international capital flows will provide us with an opportunity to consider the increasingly important issue of money laundering. I hope that this issue could be considered as part of the scheduled meeting on international capital flows or, preferably, at a separate session.

Like German economic and monetary unification, European economic unification in 1992 (EC-92) will have major implications for the world economy and the international monetary system. The work program provides for considering various EC-92 related issues as part of the discussion of other related issues such as the world economic outlook, the international monetary system, and international tax problems. We believe that EC-92, like German economic and monetary unification, warrants a comprehensive examination by the Fund of the principal macroeconomic, financial, and exchange rate issues associated with the development of a single European market. This should include both conceptual questions and the policy implications of adoption by the European Communities of common monetary, fiscal, and social policies. For this purpose, a series of Board seminars might be planned over several days, and consideration might also be given to the Fund hosting a conference on this subject.

We welcome the Fund's ongoing analytical work on debt issues, which we hope will contribute over time to a more effective debt strategy. In our effort to increase investment and growth in highly indebted countries, one issue of particular importance is the degree to which countries' investment climates are conducive to increased levels of domestic and foreign investment. Accordingly, I would like to see Fund programs give greater attention to the liberalization of investment regimes, especially in programs supporting debt reduction. Regarding the Fund's analytical work on the effects of debt reduction on investment and economic growth, I do not see how we can expect debt reduction to have a significantly positive effect on investment in the absence of an appropriate investment climate.

Since the beginning of the debt strategy, the Fund and its member countries have sought ways to deter and reverse capital flight, yet success has been limited. In hopes of finding solutions to the problem of capital flight, I would propose that the Fund conduct a study on the ways in which the commercial banking industry might help reverse capital flight from countries that are engaged in debt restructuring.

In recent years, environmental concerns have become an increasingly critical issue for economic policy. The World Bank has expanded its role in this area and policy framework papers now include some consideration of environmental problems.

The time has come to consider the role that the Fund might play in dealing with environmental issues, including in program design and policy conditionality. I would propose that these issues be considered in the near future, possibly in connection with the next review of conditionality. Furthermore, I understand that following the mid-year review of the administrative budget, an additional effort was being made to determine what measures might be taken to strengthen the Fund's ability to deal with environmental issues and to undertake case studies on the environmental impact of Fund-supported programs. I would appreciate hearing from the staff on the results of this work.

I welcome the indication that the Board will be considering the issue of prolonged use. However, I would appreciate some indication of when this topic will be brought forward.

As indicated earlier, I consider the discussion of the selection of currencies in the operational budget an integral part of the burden-sharing issue. I would hope that the conclusion of the June 1 Board discussion could be incorporated into the June operational budget.

I appreciate the Fund's desire to keep the work load associated with the Development Committee within manageable limits. However, the Fund's involvement enhances the relevance of the Committee, and I would not like to see the Fund's interest wane and the Committee develop into a little UNCTAD. I would like to see papers on issues of importance to both the Bank and the Fund prepared jointly; the work load can be kept to a minimum if these papers are short and well focused.

I note that the Development Committee asked the Bank and Fund to continue to analyze the debt problems of severely indebted middle-income countries, including those with significant official debt. Nevertheless, I hope that the Bank and the Fund will bear in mind the Paris Club's responsibility for matters related to official debt.

I am pleased to see that the results of the 1989 quadrennial benefit survey will be discussed by the Board on July 9, as further postponement of that discussion might render some of the survey findings less relevant. In addition, I see the need for a timely review of the Medical Benefits Plan in view of recent

observations by the Administration Department concerning the precarious financial position of this benefit program.

Mr. Goos asked Mr. Dawson to elaborate on his point that the Fund should try to make an effort to integrate environmental concerns into the design of its programs. He agreed that the Fund should have a clear picture of the impact of its programs on the environment, but he would be concerned if Mr. Dawson had in mind that the Fund should compromise on budgetary or fiscal discipline in order to meet environmental concerns, because that would certainly not work.

Mr. Al-Jasser said that in addition to the question raised by Mr. Goos, he wondered whether Mr. Dawson had been implying that there should be a connection between conditionality and environmental issues.

Mr. Dawson responded that the Board needed to find an occasion on which to consider how environmental considerations were integrated into Fund programs and reviews. It seemed that the next review of program design and conditionality would be an appropriate time to do that. He was not at all suggesting a slackening of conditionality. The issue of environmental concerns was related to Bank/Fund collaboration, because the Fund could rely heavily on the Bank's efforts in that regard while ensuring that in no fashion was it taking any actions that undercut those efforts.

The Chairman remarked that before discussing environmental concerns in the framework of a review of conditionality, the Board could discuss in a seminar the environmental issues relevant to the Fund, in particular on the fiscal side.

Mr. Cirelli made the following statement:

I broadly concur with the work program the Chairman has proposed. I am particularly pleased to note that, thanks to the understandings reached by the Interim Committee on the Ninth Quota Review, we should be able to devote more time to other important topics. Nevertheless, like Mr. Goos, I am somewhat concerned by the heavy work load facing us and therefore the very short time that will be left for an in-depth study of each topic.

On the implementation of the understandings on quotas and arrears, I have only one specific comment. Despite the understanding reached at the Interim Committee not to make any changes to the present access limit until the quota increase becomes effective, it could be useful to discuss the implementation of the enlarged access policy and to examine the application the Board has followed on a case-by-case approach--in sum, to have a look at how our guidelines have been used; I would welcome a paper on that topic.

Regarding the other principal elements of the program, the Chairman's statement rightly emphasizes the extent to which member countries use, and are expected to use, Fund resources. This leads me to two brief comments. First, this situation incites us more than ever to strengthen our surveillance; this means, in particular, to have fruitful Board meetings. Thus, like Mr. Goos I consider that the breaches of our guidelines concerning the usual period between the time that papers are issued and the date of the related Board meeting must be limited. Second, on the use of Fund resources, I cannot but reaffirm my authorities' wish for the number of enhanced structural adjustment facility arrangements to be increased. Because of their specific features and degree of concessionality, enhanced structural adjustment facility resources represent a unique opportunity for many developing countries, especially those of sub-Saharan Africa. I therefore welcome the indication that we can expect to see a significant number of enhanced structural adjustment facility requests. This tendency must be encouraged, with the high conditionality element associated with enhanced structural adjustment facility programs being retained.

I welcome the emphasis that the work program places on capital flows studies, as well as on exchange rate policy. The discussion of these matters, in the broader context of exchange rate policy advice for Article IV consultations, will certainly help us to orient better our actions and to link the Fund's advice with the analysis of key issues in the functioning of the international monetary system. My authorities still attach a great deal of importance to Fund work in this field. They welcome the upcoming opportunity to discuss the paper issued at the beginning of this year, and it is obvious that the Fund must continue its work in this area. Besides the traditional work of the functioning of the international monetary system, some thought could be given to the monetary integration of Eastern European economies into that system. We should devote time to studying the problem of currency convertibility and the specific question of shifting trade flows. I am pleased to read in the statement issued yesterday by the staff in preparation for the seminar on the evolving international monetary system (Seminar 90/1, 6/6/90) that this issue has been taken into account.

I am somewhat puzzled to find the study on the CFA franc zone in the exchange rate policy section, as it would have better fit under another heading. Indeed, we consider exchange rate policy to be only a partial element of the CFA zone, which also entails monetary and financial arrangements aimed at strengthening internal economic performance. Nevertheless, my authorities welcome

the opportunity to discuss these arrangements, as they feel that regional cooperation is a basis for progress by the countries belonging to the zone.

I agree that the subject of management of the debt situation ought to be maintained among our priorities. The Fund must continue to follow closely debt strategy developments. The interesting discussions held during the Interim Committee and, in particular, the questions raised by some members including that of Mr. Beregevoy on lower-middle income countries, could stimulate our discussions. If it is not too premature, I would appreciate some comments on the main features of the analytical work scheduled for July and October.

On conditionality, design of Fund policy advice, and use of Fund resources, I agree with the work program's main outline. I would hope not to devote too much time to the compensatory and contingency financing facility, and I have no objection to considering the next review of conditionality after the Annual Meetings.

On operational matters, while I agree with the proposals made in the Chairman's statement, I would like to emphasize the importance of the review of the Fund's liquidity position, considering what is at stake. The prospects of the quota increase not being put into effect immediately, as well as the reimbursement of borrowed resources, imply that special attention should be given to our financial policy in the short run.

I share the Chairman's views regarding the Development Committee's agenda, which is rather heavy. We have to find a balanced approach between our involvement and our resources.

Finally, I certainly welcome the quadriennial survey of benefits and the review of the Medical Benefits Plan, and hope that these reviews may be completed in a constructive manner.

Mr. Dawson, in response to a question from Mr. Kabbaj, said that his reference to the Paris Club had meant to point out the need to respect the lead role of the various organs in the system. The Paris Club had a lead responsibility for issues related to debt. While that did not preclude the Fund from discussing such issues, the Fund should recognize the role of the Paris Club in that context.

The Chairman noted that the lower-middle income countries had a problem with the heavy concentration of their indebtedness in the public domain. The Fund was charged with finding a solution to the balance of payments problems of those countries and helping them to achieve medium-term sustainability. Then, the Paris Club was expected to inform the Fund which

solution it preferred regarding the part of the balance of payments problem that was directly relevant to indebtedness. The Paris Club had the expertise that the Fund lacked to suggest a whole menu of options in connection with indebtedness. It was possible for the Fund to discharge its own responsibilities while fully respecting the responsibilities of the Paris Club.

Mr. Yoshikuni said that he shared the Chairman's desire to increase the Fund's dialogue with the Paris Club.

Miss Napky, speaking on behalf of Mrs. Filardo, made the following statement:

The past year has been a very difficult period in the Board. We have been working for a long time without a work program because of our obligation to finish our work on the Ninth Review of Quotas. Unfortunately, the negotiations took more time than expected and have left the institution unnecessarily wounded. The Governors, representing 152 members, made a commitment to make all efforts necessary to reach an agreement on both a quota increase and an amendment to the Articles of Agreement to introduce the suspension of voting and other related rights. The way discussions have proceeded pushed the Governors into reaching a compromise that so far we do not know whether all countries will be able to accept, since in a large majority of member countries an amendment requires congressional approval--a process that takes time. If the amendment does not pass, there will not be a quota increase. If it does pass, in spite of the renewed strategy, the Fund could face one of its most difficult periods because its cooperative nature could be impaired by the manner in which this decision has been taken. Things could have been different if the decision on the suspension of voting rights and related matters had been taken separately from the quota increase. I will not comment in detail on the issues related to the arrears strategy. But at this juncture, after long discussions related to the different mechanisms to obtain financial resources for the countries in arrears, I wonder how obtaining a voluntary contribution through the Arora proposal can be expected.

On country-related activities, in our view the Board is asking itself to do more than it can handle. Quarterly reviews of programs and practically monthly reviews of countries in arrears are overburdening the work program of the Board. Board procedures should probably be streamlined, with more specific guidelines being established.

Surveillance, the world economic outlook, and international capital flows, are of extreme importance, especially because there have been so many difficulties in correcting major external and

internal disequilibria in some large industrial countries and because, owing to these disequilibria and the liberalization of international financial markets, exchange rate stability has been put in jeopardy. We hope that the Fund, as a major multilateral institution and at the center of the international monetary system, will be able to exert more comprehensive and compelling supervision over industrial countries. Surveillance should be more symmetric and forceful if it is not to be applied only to countries requesting financial assistance from the institution. For this purpose, great political will is needed from the industrial countries. Otherwise, we will continue to have informative and illuminating academic discussions that have no impact on policy implementation in industrial countries.

The world economic outlook discussion should not only focus on the traditional analysis of industrial countries' policies and their repercussions for the world economy but it should also deal with a more comprehensive analysis of the different regions, namely, Africa, Asia, Central and Eastern Europe, and Latin America. We are very interested in the analysis of the consequences of adjustment programs under Fund arrangements and the problems encountered each year as a result of the repercussions of industrial countries' economic policies. In following up on the analytical evaluation of the debt overhang in the fall 1988 world economic outlook, it would be desirable to assess the effectiveness of the renewed debt strategy. One should take into consideration the debt overhang, the economic situation when each country began its program implementation, the effectiveness of debt reduction combined with capital repatriation and foreign investment, and the sensitivity to external shocks, such as increases in international interest rates, deterioration in terms of trade; and diminished export opportunities given continued protectionism in industrial countries and a probable slowdown of their economies.

On the international monetary system and exchange rate policies, the Chairman has proposed various related papers, which are of utmost importance given the present structure of the system, which is far removed from the basic principles of the Bretton Woods system. The present system would seem to advocate different exchange regimes in accordance with each country's circumstances and discipline. The European and Asian currency areas have succeeded in the implementation of a more disciplined system and have carried the burden of less responsible currency areas. Policy coordination would seem to be the second best alternative for those industrial countries that are not in a position to accept major exchange rate discipline. Now we can expect further distortions in the various currency areas as a result of the unification of Germany, the developments in Central and Eastern Europe, and the possible integration of the Union of

Socialist Soviet Republics into the world economy. The Fund should be ready to assess the implications of these events and stand at the center of the coordination process. For this to be feasible, it will be essential that the Fund use major tools such as the Article IV consultations, the world economic outlook, more quantitative work on the different geographic regions, and periodic reviews of surveillance and the international monetary system. In assessing the evolution of the international monetary system, we should use a multilateral approach.

After many years of trying to make the SDR the principal reserve asset of the system, now, when international liquidity is becoming more scarce and most countries are in urgent need of foreign savings, the Fund should be able to assess whether the importance of the SDR should be increased or decreased. We are starting a new era and we have to reflect deeply on whether it is necessary, and when it would be appropriate, to have a reform of the international monetary system.

On the different papers on exchange rate systems, we especially welcome those related to the CFA franc zone arrangements, the review of exchange rate policy advice in the context of Article IV consultations, and issues on exchange rate policies for developing countries. These will facilitate the advice provided by the staff and the assessment of the Board decisions regarding exchange policy.

In relation to the management of the debt situation, we think that the three papers suggested by the Chairman are very appropriate. Nevertheless, in the paper to be discussed along with recent developments in capital markets, it would be desirable to have a broad assessment of the discrepancies of tax and accountancy regulations in different countries that still constitute a constraint on the development of the debt strategy and alternative solutions for promoting commercial bank participation.

In considering the use of Fund resources, conditionality, and design of Fund policy advice, despite the fact that the Executive Board has requested the creation of an independent unit for the assessment of Fund programs and a specific study of program design, three years have passed and still we have not had any answer to our request. We wonder whether studies are being developed or whether there continues to be resistance to conducting an adequate evaluation of the effectiveness of Fund programs and the uniformity of treatment of Fund members. In our view, we need, to assess the linkage between the guidelines approved by this Board regarding program design, conditionality, and access, and the differences that apply to each member country. For instance, what criteria are used to design programs in exactly

the same way regardless of profound institutional and structural differences between countries, what criteria are applied to allow one country to have larger access than another, and under which conditions is one country that has deviated from its program allowed further disbursements while others are not.

We have observed that in this Board the staff analysis is always assumed to be correct, and there is no unit in this institution to assess whether program failures were perhaps due to a mistake in program design. As a result, both the staff and the Board always blame any failure on policy slippage. It might be convenient for the Fund to have a more precise classification of countries or programs, as well as a loan committee to examine the adequacy of programs and an independent unit to evaluate the reasons why a program's results are not as envisaged. We have observed that since the Fund was criticized for not taking into account economic growth, all programs now estimate economic growth within a year of a program. When a country is implementing strong adjustment measures the result is usually an economic contraction for more than two years, followed by economic and political unrest. While economic policy recommendations could be in the right direction, and "shock" treatment as opposed to gradualism makes the necessary difference, we should be cautious with the staff projections and recommendations in the context of a Fund program. As the last world economic outlook indicates, there are great discrepancies between what area departments project and what the final result really is. We have only a few months left in the Board until the Annual Meetings, and given the time that management has taken on these matters to date, we remain skeptical of whether a solution will be worked out for dealing with these problems. Nevertheless, we would like to state our opinion for the record.

Mr. Finaish made the following statement:

On the whole, I find the work program proposed by the Chairman quite reasonable and I can broadly endorse it. Let me, however, offer a few brief comments and suggestions.

On Section I, although judgments may differ on the outcome of the quota and arrears exercises and the way they have been brought about, we too welcome the fact that the Board's work on quotas has been completed and we look forward to speedy progress in finalizing the various elements of the arrears strategy on the basis of the understandings reached by the Interim Committee. This should help the Board to refocus its attention and resources to its "normal" functions, although in the case of arrears the implementation

of the new strategy will undoubtedly continue to require a great deal of effort from the Board, management, and staff.

Turning to Section II, it is indicated that the number of consultation discussions through September is projected at 58, which is comparable to earlier years, while the number of arrangements and program reviews is estimated at 43. In this connection, I have noted some of the changes being proposed in the surveillance paper that was issued yesterday and that are intended to make the surveillance procedures more efficient and better focused. We look forward to the Board's consideration of these and any other suggestions to further streamline the surveillance process, while maintaining the quality of this important function of the Fund.

We welcome the three studies being prepared on exchange rate policy. Although the Fund's surveillance function has evolved over the years to encompass the whole range of members' economic and financial policies, exchange arrangements and exchange rate policy remain at the center of the Fund's responsibilities, and therefore deserve special attention in order to ensure a high quality of the Fund's recommendations and advice in this area. In this connection, however, I wonder why the second study is being limited to exchange rate policy advice in the context of Article IV consultations. The Fund surely gives exchange rate advice in the context of Fund-supported programs as well, and this advice is usually more specific than that under Article IV consultations. In my view, a more appropriate title for the study would be "A Review of Fund Advice on Exchange Rate Policy."

On conditionality, I will only reiterate a comment that I made in earlier work program discussions. Although we fully understand the emphasis on upper credit tranche conditionality, I believe that it would be useful for the forthcoming paper to include a section on the first credit tranche. This aspect of the Fund's lending policy has not been discussed in the Board in recent years, nor even in not so recent years. As far as we know, there has not been sufficient guidance from the Board on this matter, which makes it difficult for us to explain the Fund's policy on the first tranche to our authorities when we are asked to do so.

On the management of the debt situation, in addition to the usual Board discussion preceding the fall Interim Committee meeting, the Development Committee has requested the Fund and Bank staff to pursue some topics related to the debt problem, as well as a number of other topics. I agree with the Chairman on the need to keep the staff's work for the Development Committee at a manageable level, which in a way also raises the broader issue of

duplication between the two committees. One debt-related issue, which I am not sure will be covered under the debt paper as described under Section 4 of the work program, is the debt situation of the low middle-income countries whose debt is mainly owed to official creditors. As we know, a number of ministers have stressed this issue during the Interim Committee meeting a few weeks ago. This is also among the topics that the Development Committee has asked the Fund and Bank staffs to pursue. As far as the Fund is concerned, I believe this can be done most efficiently in the context of the discussion on the management of the debt situation. This will require that the staff documentation for that discussion include substantive coverage of the particular situation of this group of countries. On the question of whether debt issues are in the domain of the Paris Club or the Fund, it is clear that the debt problem is a balance of payments problem, and the Fund is a balance of payments institution whose programs exist to correct balance of payments disequilibria. In addition, Paris Club conventional rescheduling is not sufficient for certain countries to achieve balance of payments viability. Such issues have to be addressed by the Fund.

Finally, there is one specific issue that in my view deserves looking into by the staff, perhaps in the context of their ongoing research work. The issue that I have in mind is the methodology used for measuring per capita income for the purpose of classifying countries by income groups. I realize that these classifications are more relevant for Bank operations, but they also enter into some Fund operations, at least indirectly. Moreover, to the extent that exchange rate regimes and exchange rate levels are important variables in this methodology, one would expect the Fund to be directly or indirectly involved in these calculations. Obviously I am not suggesting a Board discussion on this matter, but I believe it would be useful if the staff were to prepare a brief study or explanatory note on this question for the benefit of the Board.

I can associate myself with Mr. Al-Jasser's remarks on trade issues.

Mr. Posthumus made the following statement:

I note with satisfaction that the work program included in the Chairman's statement contains all the subjects that are important for strengthening the specific contribution to international monetary relations that the Fund is supposed to make. In particular, Section II, paragraph 2 (on surveillance, world economic outlook, and international capital flows), paragraph 3 (on the international monetary system and exchange rate policy),

and paragraph 5 (on use of Fund resources, conditionality, and design of Fund policy advice) are in my view of great importance. The world economy is becoming more market oriented, with more market-oriented economies, possibly even the Soviet Union, entering the system, with freer trade and with freer capital flows. However, market-oriented economies cannot function well without certain rules of the game and without some discipline. On a global scale, this requires voluntary cooperation and coordination and willingness by all members to adhere to the rules of the game. It is time that the Fund once again devote to its specific role in the monetary and exchange rate fields.

On exchange rate policy, Mr. Finaish made a remark on the distinction between exchange rate policy advice in the context of Article IV consultations and in the context of Fund-supported programs, with which I fully agree. But that leads me to another question: in paragraph 3, the Chairman also suggests a paper on issues in exchange rate policy for developing countries. However, I think that the criteria for identifying a country as "developing" are not well enough defined, since the situations of developing countries are so varied.

I am concerned that the staff representative's statement on major issues in the evolving monetary system has been put on the agenda of June 6 (see Seminar 90/1). Rushing these subjects through the Board serves no good purpose.

I request more time to prepare a position on whether issues involving the European Communities and the European Monetary Union should be discussed in the Board, even in seminar form. The same holds true for the staff paper on tax harmonization in the European Communities, which according to the work program is scheduled for discussion in the Board in July. However, I highly value the staff papers on these issues.

On operational matters, the Chairman's suggestion is that we discuss in September the situation that has developed concerning the overcommitment of borrowed resources. In the absence of new borrowing, by early 1991 the Fund will not be able to fulfill its commitments to members at least as far as borrowed resources are concerned. It has been taken for granted so far that the Board would agree to the substitution of ordinary resources for borrowed resources in the absence of new borrowing. In my view, we cannot continue this approach, and I therefore propose that the Board discuss this situation before the summer recess.

I would like to return briefly to the introduction of the Chairman's statement. In particular, I would like to differ slightly with the judgment that the understandings of the Interim

Committee on the Ninth Review of Quotas and on the arrears strategy will greatly strengthen the Fund as the central institution in the international monetary system and in discharging its operational responsibilities toward its members. I would think that the potential for strengthening the Fund is still there, but it cannot be taken for granted anymore.

It is quite possible that we will find in two years from now that the suspension amendment has not been approved. That would be disappointing. It would also mean that there would be no quota increase under the Ninth Review. In the meantime, absolute access to Fund resources would be maintained, while new borrowing has not been assured nor even accepted in principle. Thus, the liquidity ratio will drop continuously, with the possibility that we would not be able to replenish our resources when necessary. The understandings in the Interim Committee have made it possible for such a situation to occur, and it is questionable that we could, in that event, continue to discharge our operational responsibilities. A shrinking Fund in an expanding global market economy could still be the central institution in the international monetary system, but that would require hard work and little complacency.

Finally, I have a question regarding our agenda. The biennial review of the implementation of the Fund's surveillance over members' exchange rate policies has been scheduled for July 2. However, a conference on developments in Africa organized in my country, which I would like to attend, will take place at the beginning of that week. Is it possible to find another date for the surveillance discussion?

The Chairman recalled that the Interim Committee had asked its members to take all appropriate measures to avoid the possibility of neither the quota increase nor the amendment to the Articles being in place by 1992.

Mr. Posthumus said that he had simply been pointing out that such an uncertainty should never have been allowed by the Fund as a central institution in the system. The decisions on the quota increase would be without value if the amendment on suspension were not accepted. In that case, the process of parliamentary approval would have to be renewed in member countries, which would cost at least another year.

Mr. Sarr made the following statement:

Like previous speakers, we found the Chairman's statement on the work program to be well balanced and we have no difficulties in supporting it. We have no particular comment on the priority given in the work program to the implementation of the Interim

Committee understanding, except to welcome the Chairman's intention to give effect quickly to Mr. Arora's proposal for voluntary contributions by countries not participating in the burden-sharing mechanism.

On country-related activities, with the record number of programs in effect, it is expected that an increasing number of country matters will be brought to the Board's agenda during this period. We are prepared to support a rearrangement of the work program in order to accommodate some urgent requests that will be presented to the Board. We hope, however, that any rearrangement will result in only minimal delays, in particular with respect to some of the items that have already been postponed for a number of times.

On international monetary system issues, we have no major difficulties with the scheduled seminar on key issues in the functioning of the international monetary system, addressing key characteristics of exchange rate systems and conceptual issues associated with economic and monetary unions in Europe. We regret, however, that the paper addressing exchange rate issues for developing countries could not be considered at the same time. As for the specific study on the CFA franc zone, we hope that the study will go beyond the narrow scope of exchange rate levels. We welcome the opportunity to consider it in seminar format in about July or August, and we hope that arrangements will be made for the French version of the paper to be available with sufficient lead time.

With regard to the management of the debt situation, we found the work program on this issue to be comprehensive and we have little to add. We continue to attach a high priority to the problem of official debt overhang for the lower middle-income countries and to the fact that no viable solution to the problem of these countries has been put into place. We expect that this issue will be given the highest consideration in the coming papers analyzing problems confronting debtor countries.

We find the timing of the next periodic review of conditionality after the Annual Meetings to be appropriate. A number of our Governors have already recently had the opportunity to exchange views with the Managing Director on issues of conditionality and we believe that the timing of the review will give them enough time to consider further a number of important points that were raised during that exchange of views. While we find the focus in this review on the experience gained using information from the upper credit tranche stand-by and extended arrangements approved during 1985-87 to be extremely useful, we believe that the more recent context in which fundamental economic reforms are

being undertaken will need to be given due consideration in the forthcoming review of conditionality. We also share Mr. Al-Jasser's views on some of the selected issues that should be taken into account in the conditionality review, especially the sequencing and phasing issues as well as other broader issues raised by fiscal conditionality. We look forward to some imaginative approaches on the issue of conditionality and its implications for the design of Fund programs in the 1990s.

The Development Committee agenda will place a heavy burden on the staff of both institutions and we are prepared to support proposals that might become necessary in order to manage more efficiently the related work load.

Finally, a number of administrative matters that are very important for the staff remain to be discussed, and we hope that these can be accommodated in a reasonable time frame.

Mr. Enoch made the following statement:

Once again I welcome the opportunity given to the Board to discuss our prospective work program. As other Directors have noted, the Chairman's statement shows that the pressures on the Board's time will not abate over the coming months. Looking back over similar discussions of the work program in the past, it is clear that much greater efforts are now being made to achieve a more regular flow of work over the coming months. It is helpful that tentative dates have been established for some time in the future for many of the subjects before us.

Nevertheless, before turning to substantive matters, I would like to raise a procedural issue. This concerns the frequency with which country programs are brought to the Board at short notice. The tentative schedule attached to the work program contained no dates for forthcoming program discussions beyond that for Madagascar on June 11. The most recent update specifies dates for only two further programs.

In 1982, the Board agreed on guidelines that papers for country programs should be brought to the Board at least four weeks before they are discussed. In 1984, for instance, with 183 country items brought to the Board there were only 19 requests for waiver periods. In 11 of the 19 cases the circulation period was shortened by 7 days or less. In contrast, this year, of 24 country programs, in only three cases has the required circulation period been granted. In 12 out of the 24 cases the circulation period has been less than 3 weeks. This shows clearly that the circulation period guidelines are not currently being

followed. I would have thought that either the procedures need to be tightened up or, if it is felt necessary to maintain precise practices, the Board should consider a revision to the guidelines.

I agree that the main focus over the coming months should be on operational issues, in particular, country matters. The issues identified in the Chairman's statement all look to be of considerable importance, and I will therefore just pick up a few points. I note that this section refers to work on recent and prospective requests for Fund membership, and I would therefore be interested in any more details on how this work is progressing and when it is likely to come to membership committees and the Board.

Regarding burden sharing, I am slightly surprised that the recycling proposal has resurfaced. My understanding was that it had lapsed because of its impracticability. I therefore wonder whether it warrants significant further consideration given the identified difficulties, or would it be better to look for higher SCA-2 contributions in the event that financing for the arrears strategy should prove insufficient.

The Chairman pointed out that the Interim Committee had noted that the question raised by Mr. Enoch was one of the points to be considered in finalizing the Board's work on the Fund's strengthened arrears strategy.

Mr. Enoch remarked that there might be more cost-effective ways of spending Board time given the possible outcome of such a discussion.

Mr. Enoch then continued his statement:

One further outcome from the Interim Committee was the commitment to maintain existing access levels until the forthcoming quota increase becomes effective. I look forward to discussing this in time to formulate an Executive Board decision before June 30, and I hope that the promised paper on this subject is circulated soon.

I am also slightly surprised at the delay in the promised paper on the CFA franc zone, which was originally intended for April. This paper clearly has direct operational implications. Given that a number of Board discussions of CFA franc members are likely over the coming months, it would clearly be helpful to discuss this paper as soon as possible. In this operational context it would also make sense to take this paper, together with the more general papers on exchange rate advice in Article IV consultations and exchange rate policy for developing countries. These issues are a central element of Fund surveillance, and one where clarification is urgently needed. Of course, in all cases

the exchange rate discussion has to be taken in the context of the concomitant monetary and fiscal policies. Also, I would have thought that the issues are of sufficient importance to warrant a full Board discussion rather than a seminar.

The Managing Director's statement suggests that Fund/Bank collaboration can be discussed within our forthcoming structural adjustment facility/enhanced structural adjustment facility review. I think, however, that the issues range somewhat more widely than this, and hope that a specific discussion on Fund/Bank collaboration could take place.

Some emphasis was also rightly placed on the ongoing work program on Eastern Europe, which clearly will be an important element in the Fund's activities over the coming months. I have two comments on this. First, the principal issue to be covered--how to transform an economy from central controls to market orientation--has implications much more broad than Eastern Europe alone, so I hope this wider context will be borne in mind. Second, I suggested at the recent Board discussion on Poland (EBM/90/74, 5/14/90) that a paper on the workings of the CMEA arrangements would be useful. These arrangements are a major constraint on policymakers from CMEA countries, and it is important that the Fund should have as full an understanding of them as it has of other parts of the international financial system.

In our most recent discussion of the work program, I expressed support for considering the establishment of an independent evaluation unit. I would hope that a paper looking at the possible role of such a unit, and examining experience in other institutions, such as the World Bank, could be prepared over the coming months.

Another topic to which I was surprised to see no reference was the external relations review. This has been sought by a number of Directors for over a year. The Fund's public image will be particularly important as member countries begin the process of ratifying the quota increase and the amendment to the Articles. In addition, there are some issues concerning the handling of the Annual Meetings, in particular, the possibility of charging for nonofficial participants, which will be worthwhile to discuss.

On administrative matters, the various items identified in the Chairman's statement certainly all require the Board's attention over the coming months. Indeed, they have all been significantly delayed. I trust that the absence of any reference to the timing of Board discussions on the quadrennial survey of benefits and the review of medical benefits does not imply any further slippage.

Of the papers to be circulated for the information of the Board or on a lapse of time basis, I would have thought that on this occasion there would be a strong case for Board discussion of the Annual Report on technical assistance, given the major changes in the Fund's work in this area over the past year.

Finally, while Directors have noted the heaviness of the forthcoming Board agenda, there have already been a significant number of additional commissions suggested at this meeting. I would have thought that perhaps Directors proposing additions should suggest a similar number of deletions. From past experience, however, I fear there would be no consensus on such suggestions. Perhaps, therefore, at some stage, it might be helpful to circulate a list of topics that it is implicitly suggested should be crowded out at least for a while. Although difficult, this would make the Board focus on the realism of its requests, and hopefully would set requests within a consistent framework as to what are the central operational requirements of this institution.

Mr. Prader said that he could broadly agree with the Chairman's description of the work program and its priorities, in particular with the emphasis on implementing the understandings of the quota review.

In the context of the discussion on extended burden sharing, Mr. Prader indicated that he was looking forward to finally seeing the figures on members' contributions to extended burden sharing, which he had requested before the Interim Committee, but which had still not been supplied to the Board for reasons of lack of time and/or resources.

His Belgian authorities welcomed the inclusion in the present work program of the papers on tax harmonization in the European Communities and on the international coordination of tax policies, and looked forward to the discussion of those issues in July, Mr. Prader continued. The effects of different tax systems on the direction of the international capital flows were, in their view, of a systemic nature, the importance of which was bound to increase in line with the further liberalization of capital flows. The Fund was uniquely placed to organize a general policy discussion of those issues; first, by producing the appropriate analytical framework; and second, by examining how they could become part of the Fund's normal surveillance activities. He hoped that the first exchange of views in July would produce useful guidelines for the further examination of those issues.

On Mr. Dawson's point on environmental issues, Mr. Prader said that he would also support having a discussion on environmental issues and their implications for Fund programs. What was perhaps striking in the work program was the absence of any systematic and general discussion of the problems of formerly centrally planned economies, beyond the scope of Fund

program approvals and Article IV discussions. Such a discussion had already been postponed several times, but it now seemed to have been silently dropped. He would be interested in the reasons for that on-and-off policy of the Fund, and hoped that the underlying motivation for delaying the discussion was not a fear of being overtaken by events.

He also shared Mr. Goos's and Mr. Enoch's concerns about the work load and about the lack of adherence to the guidelines for the circulation of papers in the Fund, Mr. Prader indicated. That should be corrected as much as possible. It had been particularly embarrassing when the paper on suspension was presented only very shortly before the discussion in the Board. He would also support the Fund staff in its efforts to reduce to a rational level the amount of work created by the Development Committee's demands.

Mr. Thorláksson noted that the work program for the period up to the Annual Meeting was ambitious and compressed, and would undoubtedly impose a heavy burden on the staff and the Board over the coming summer. There was evidently little room for maneuver in the present work situation. The Fund had to both fulfill its basic duties regarding country matters and address other important and demanding items in the work program. The large number of Article IV consultations that had to be completed and discussed in the Board before the Annual Meetings suggested that the Fund, in the upcoming discussion on that matter, should consider all feasible ways to ease the work load generated by the surveillance procedures.

He broadly agreed with the issues and the priorities outlined in the statement, and would only emphasize the following issues, Mr. Thorláksson indicated.

First, the Nordic countries stressed the importance of the Fund's technical assistance, particularly for countries in need of fundamental structural changes involving reconstruction of economic and financial subsystems, Mr. Thorláksson said. He therefore placed a high priority on technical assistance and the work of the IMF Institute.

Second, he would underscore the significance of the Fund's contribution to economic policy coordination, globally as well as among the major industrial countries, Mr. Thorláksson continued.

Third, in light of the great importance of trade liberalization for economic development, not least in the developing countries, Mr. Thorláksson said that he would welcome consideration of a more active role for the Fund in its collaboration with the GATT.

Fourth, no doubt the Fund's involvement in meeting the requests made by the Development Committee placed a heavy work load on the Fund, Mr. Thorláksson agreed. Nevertheless, as the Development Committee was a joint committee, both the Fund and the Bank should have equal

responsibilities in that area and each should contribute according to its comparative advantage, of course, within manageable levels.

Finally, in view of the heavy work schedule ahead, Mr. Thorláksson stressed the importance for the offices of the Executive Directors and for the authorities that every attempt be made to follow the guidelines for the circulation period of staff papers.

Mr. Kabbaj said that he was in broad agreement with the thrust of the well-crafted work program. Since most of the issues had been discussed during the recent Board discussion on the administrative budget (EBM/90/64, 4/23/90), he could be brief.

First, on the implementation of the Interim Committee understandings, Mr. Kabbaj considered that the most important parts--namely, the quota increase and the amendment of the Articles--had already been taken care of. Still remaining were the rights approach, burden sharing, and related issues, for which papers had been or were being circulated to the Board. He looked forward to the early discussion of those papers and hoped that solutions acceptable to all parties could be found.

On other principal elements of the work program, Mr. Kabbaj noted the heavy work load associated with country-related activities and requested that it be distributed as evenly as possible over the period available.

He looked forward to the discussion of the paper on the biennial review of the implementation of the Fund's surveillance over members' exchange rate policies, as well as to that of other policy issues listed in the work program, Mr. Kabbaj indicated.

Regarding the management of the debt situation, Mr. Kabbaj welcomed the attention that continued to be devoted to that difficult problem, with which an important part of the membership was struggling. The work program referred to the interesting discussion that the Interim Committee had had on the subject. The Development Committee had also had a no less interesting discussion of the same topic, which was referred to in another part of the work program. Like Mr. Finaish, he would encourage the staff also to draw on that discussion in preparing the forthcoming papers on the debt situation, since the Development Committee was a joint committee of the World Bank and the Fund.

As to the work of the staff for the Development Committee, Mr. Kabbaj agreed that the work of the staff in general should be kept at a manageable level, but he respectfully disagreed on trying to cut back, particularly on the work related to the Development Committee. That committee was a joint Bank/Fund committee and it dealt with issues that were of relevance to the work and responsibilities of the Fund.

Finally, Mr. Kabbaj associated himself with the comments of Mr. Al-Jasser on trade issues and the independent evaluation unit.

Mr. Kafka said that he considered the work program to be well formulated, although he did find it somewhat heavy.

It would be useful for the Board to take the time to consider not only what it discussed, but also how the documentation for discussions could make the best use of the variety of experience and talent found in the Board and among the staff, Mr. Kafka suggested. For example, the Research Department could be used to illuminate country reports, while the area departments could comment on more theoretical papers. He considered such interchange would be to the advantage of the Fund as a whole.

One way to avoid further burdening the work program was not to take on the responsibility of assessing environmental matters, Mr. Kafka said, which was not an area of comparative advantage for the Fund. While he certainly did not deny the importance of environmental issues, other institutions were better qualified in that area and it should be left to them. He was pleased that the question of the administrative tribunal would soon be discussed, if the staff was still pressing for that. He had missed, however, a reference to the new evaluation unit, which the Board had discussed a great deal and which was urgently needed. Finally, he agreed with the suggestion of Mr. Finaish that there be a study on the usefulness of first credit tranche stand-by arrangements.

Mr. Evans said that he endorsed the comprehensive work program as set out in the Chairman's statement, although he shared the views of Mr. Goos that the program might be too heavy for the Board to do justice to individual important topics. Already on country matters, and Article IV matters in particular, the Board discussion had become the least important and least satisfying element of those processes--a development that the Board needed to address when discussing its own procedures. That development was also aggravated by the sheer volume of work with which Directors were presented. It was important to ensure that items were of priority to the Fund and that they were in its areas of comparative advantage before they were placed on the agenda. For example, other competent bodies would be discussing the issue of German economic and monetary unification, so that the Fund could keep fully informed without having to have a full debate on the matter itself. Likewise, the issue of money laundering was a matter for experts, and it was not a central issue for the Fund.

He had been pleased to hear in the Chairman's statement that the staff's research activities would be oriented toward country operations and program design, and would focus on systemic issues such as exchange rate policy and exchange rate systems, Mr. Evans said. That was the focus that the Fund's research should have. It would be helpful if the Research Department's work program could be circulated from time to time for the information of the Board.

On the Development Committee, Mr. Evans remarked that the sensible thing would be to abolish that committee, which he saw as a make-work body.

Policy coordination was a high priority topic for the Board, Mr. Evans considered. He recognized the sensitivity of those matters, but nevertheless felt that policy coordination was too important an issue to be left outside the Fund's mainstream.

He was always pleased when the world economic outlook concentrated on specific topics, Mr. Evans said. In the past, the Board had not had the opportunity to discuss those specific topics as well as it might have. While he understood that most of the documentation could not be finalized until the last minute in order that it be up to date, perhaps the special topics could be separated and discussed earlier so that the Board would have an opportunity to make some comments and the staff would have the chance to take account of those comments.

Closely related to that, Mr. Evans commented, was the question of the Board's program between its August recess and the Annual Meetings; he would like the Secretary to make every effort to keep the schedule in that period concentrated on matters for the Annual Meetings and associated Interim Committee meetings, and free of other issues as much as possible.

Mr. Finaish asked whether Mr. Evans had suggested that the Development Committee be abolished because of the subjects that the Committee discussed or because he considered that the Committee was not a very productive forum.

Mr. Evans responded that while the Committee Secretariat sometimes had to work hard to ensure that there were relevant topics on the agenda, there were certainly some issues, such as debt, that were of a very high priority. However, he wondered whether there was anything that the Committee did that could not have been done--and perhaps more effectively--by the Interim Committee.

Mr. Dawson said that, given the fact that the current account surplus of Germany was currently approximately 4.9 percent of GDP and was likely to decline, therefore resulting in adjustments throughout the world economy, he considered that the Fund was most qualified to analyze the issue of German monetary unification.

Mr. Evans indicated that he had had in mind the OECD as the institution that would be better placed to analyze such an issue. He would note that the Fund had tended to attach less importance to external imbalances than it had a few years earlier, and such changes in values had to be reflected in the choice of priorities for the work program.

The Chairman remarked that he himself had had in mind the monetary committee of the European Economic Community, which had certainly devoted a lot of time to German monetary unification. However, the Fund did not have

access to its work. As for the OECD, he considered that the Fund was in a better position to study such an issue, given the specialization of its staff in monetary issues and the institution's systemic responsibility to consider issues of such wide implication in the context of the world economic outlook. It was, he considered, the responsibility of the Fund to find time in its busy agenda to address the question of German monetary unification. His intention had been to do so on the occasion of the Article IV consultation with Germany, at which time a full-day meeting, or longer if needed, could take place. It might also be possible to hold a seminar on the systemic aspects of German monetary unification.

Mr. Dawson noted that the OECD had, within the past three or four days, reviewed the German economy, including the issue of monetary unification. While that had led to an interesting and positive discussion, it had not been the kind of in-depth discussion that the Fund Board had the competence to conduct.

Mr. Lombardo said that he agreed that now that the Board had completed its review of quotas and of the arrears strategy, it should focus its attention on operational work and, in particular, on country matters. He also agreed that the issues of external indebtedness and economic reform should be at the center of the Fund's attention. The staff had been working hard on those issues, but there was no doubt that more remained to be done.

He was in broad agreement with the Chairman's statement on the Board's work priorities until the next Annual Meetings, Mr. Lombardo indicated. He looked forward to the Board seminar on major issues in the evolving international monetary system--an interesting and dynamic subject. The recent dramatic changes in Central and Eastern Europe and the plans for economic and monetary union for Germany and for the European Communities made the subject of monetary systems even more relevant than before. At the same time, those recent changes and plans showed that that issue was continuously evolving, making its analysis challenging. He was confident that the staff would deal satisfactorily with the changes and would be able to prepare papers that contained specific recommendations.

The strengthening and implementation of the debt strategy was certainly one of the most crucial issues for the countries of his constituency, Mr. Lombardo continued. Particular attention would have to be paid to operational and policy issues related to the implementation of the debt strategy. The Fund's involvement in the debt strategy could also be reviewed. The current guidelines had been working satisfactorily in the case of some countries that were able to agree to debt and debt-service reduction operations. However, more flexibility in the guidelines and perhaps a more active role by the Fund could allow a larger number of countries to benefit from debt reduction.

The Fund could also play a major role in promoting a freer international trade and the liberalization of international markets, in particular

agricultural markets, Mr. Lombardo considered. He looked forward to the papers on Fund/GATT collaboration and on the review of trade policies. He would suggest a more active participation of the Fund in encouraging the final steps of the Uruguay Round. Like Mr. Al-Jasser, he felt that part of the success of most Fund adjustment programs would depend on achieving better international trade conditions.

Mr. Clark associated himself with the concerns that had been expressed by other Directors about the extent of the work load. The work program as presented by the Chairman was comprehensive, touching on just about every area of the Fund's responsibility. In the current discussion, many Directors had added to the heavy work load, not just for the Board, but also for the staff. Having said that, he did himself have a small request, in that he supported Mr. Evans's suggestion to give the Board the opportunity to review some of the policy issues that were to be addressed in the world economic outlook before the final document was complete.

In his statement, the Chairman had indicated that the world economic outlook projections would be updated and that alternative medium-term scenarios would continue to be used to assist in analyzing and understanding the international implications of major economic developments and policy issue initiatives, Mr. Clark recalled. It would be useful to the Board to discuss those medium-term alternatives and policy simulations before the actual writing of the document began.

He would also find it useful if the Board could have more frequent discussions on short-term exchange rate and market developments, Mr. Clark said, particularly given the fragility of the current economic situation.

Mr. Munthali made the following statement:

We would like to join other Directors in expressing appreciation for the Chairman's comprehensive statement on the work program that should occupy the Board until the Annual Meetings. It is with a great sense of relief, though with mixed feelings, that we note the often difficult debate on the Ninth General Review of Quotas and the related discussion on the strengthening of the arrears strategy has now almost come to an end. The final decision now rests with our Governors.

However, there are some outstanding issues related in particular to the strengthened arrears strategy that require the Board's attention. We look forward to discussing the paper on operational modalities of the rights approach, which has been scheduled for June 18. It is important to put these operational guidelines in place as soon as possible in order to provide content to Fund-monitored programs that are already being implemented by some of the arrears countries in our constituency. We, therefore, hope that a program supported by the rights

approach would gain recognition in the Paris Club and attract other sources of financial support, as so eloquently put by Mr. Dawson in reference to the case of Zambia.

On the question of burden sharing, we would like to support the ongoing efforts on the Arora proposal, which seeks to operationalize possible voluntary contributions. Here, we need to be guided by the conclusions of the recent Interim Committee meeting so that the current burden-sharing mechanism can reflect the cooperative character of the Fund.

As regards the other elements of the work program, we are likely to be faced with the perennial problem of a bunching of the agenda, which to some extent reflects the nature and rhythm of our work. In particular, country programs often experience some measure of bunching, particularly for those African countries in our constituency that have active programs with the Fund. The close monitoring of the implementation of such programs, which is crucial for successful completion, tends to consume a lot of staff time and effort. In these circumstances, perhaps emphasis should also be placed on technical assistance in order to improve member countries' implementation capacity, which in turn would promote sustainability of the adjustment process initiated through Fund-supported programs? This could be considered in the review of the design and monitoring of Fund-supported programs, in addition to any other relevant issues, including the adequacy and specificity of possible social safety net provisions.

We are, therefore, looking forward to the review of the operations of the structural and enhanced structural adjustment facilities. In contrast to the previous review on enhanced structural adjustment facility operations in particular, the Board will now have available a reasonable amount of background material because of the higher number of programs being implemented. In some of these cases, the authorities are already in the process of implementing their third and final year arrangements. The question that comes to mind, therefore, is whether or not the adjustment process is taking hold so as to be sustained without the close nurturing by the Fund. If not, the possibility of a successor arrangement would need to be considered in the light of the temporary nature of enhanced structural adjustment facility resources.

Obviously, the possibility for successor arrangements is related to the issue of prolonged use and the revolving character of Fund resources, which is expected to be taken up at a later stage. However, from the point of view of the authorities, the issue goes beyond prolonged use, as they also take into account the potential resources that are normally catalyzed by the

implementation of such programs both from the World Bank and other multilateral and bilateral sources. Since the issue of successor programs and the implied prospective increase in the Fund's exposure is equally relevant to countries in arrears that are cooperating with the Fund, we would hope that the operational guidelines paper would fully reflect these and other possible ramifications.

Finally, we agree with the Chairman that the agenda for the Development Committee is extensive. However, we are interested in most of the subject matters. Undoubtedly, a considerable amount of staff resources would be spent in developing the relevant papers. However, we would hope that management will continue to exercise flexibility to minimize the burden of work without compromising on the quality of output.

Mr. Dai said that he could generally agree with the work program, but would like to make two general remarks.

On policy issues, it was regrettable that the Board had spent so much of its time and energy on the quota and linkage issues, Mr. Dai stated. Although a draft resolution on an amendment had been worked out as a compromise, he had never been convinced that the amendment could provide an effective and fundamental solution to the arrears problem. It was therefore his hope that the Board could now shift its focus and priority to practical operational work. It needed to devote more effort to assisting countries in arrears with the formulation and implementation of adjustment programs as well as to promoting the role of support groups under the strengthened collaborative approach, in the hope that members in arrears would take advantage of the opportunities provided by that approach to address their arrears problems. Perhaps one could start with the easier cases by experimenting with the newly evolved approach as quickly as possible on a case-by-case basis. Prolonged arguments on issues that were not of immediate practical significance should be avoided.

Given the recent changes in Europe, it was clear that a considerable amount of staff resources and Board attention would be focused on country matters, Mr. Dai commented. But, taking the Fund as a whole, the imminent need for assistance to the majority of the members in the Third World was still among the urgent issues. He hoped that when attention shifted to Eastern Europe, work on developing countries in other regions experiencing difficulties would not suffer.

Finally, Mr. Dai agreed that the work schedule for June appeared too heavy. Some rescheduling might be needed. In the name of efficiency, he would prefer that similar or related topics be grouped and taken up at one time (or in two or three sequential sessions).

Mr. Arora said that he shared the concerns expressed by Mr. Posthumus on the outcome of the Interim Committee communiqué. Rather than strengthening the Fund, the resulting understandings might have in fact weakened the institution somewhat, and created precedents that could put the Fund in an awkward position in the future. Accordingly, he fully supported Mr. Enoch's points that more work would be needed by the Fund to see that those understandings were brought into effect appropriately, and that the Fund's external image was improved.

It might be useful, Mr. Arora suggested, if as part of the ongoing research by the staff into the theoretical, analytical, and empirical issues of Fund policy, attention could be given to the income distribution effects of adjustment programs. He was not asking for any separate papers on the subject, but rather, was proposing that the staff consider the issue in the context of its existing work. In the short run, countries might not be able to do anything about the income distribution effect, but the Fund Board, the international community, and the countries themselves should be clear as to what was happening to the populations of the countries with adjustment programs.

He supported Mr. Dawson's view that the Fund should be involved in the Development Committee so long as that Committee was functioning, Mr. Arora said, but the Fund should not be expected to work on issues on which it did not have any particular expertise.

Mr. Kyriazidis said that he could endorse the work program, with the reservation expressed by Mr. Goos on the heavy work load. He had listened with great interest to the various comments about the work load, some of which was imposed on the Fund by its statutes, and some of which reflected Board initiatives in other areas that were of interest or related to the work of the institution. He agreed with Mr. Evans that when the scope of the Fund's work was to be expanded, very clear priorities needed to be set, given the limited resources of staff and Board time. The other option was to create some more time by reducing the time spent on, for example, Article IV consultation discussions.

It had been proposed two years ago by Mr. de Groote, for example, that all countries except the Group of Seven be put on a biennial schedule, Mr. Kyriazidis recalled. Perhaps that proposal could be discussed in connection with the review of surveillance. It would give additional time to the Board to discuss other items of importance for the Fund and for the international monetary system, for which the Fund had a specific responsibility.

At any rate, the importance of establishing priorities could not be denied, Mr. Kyriazidis stated. For example, he tended to agree with Mr. Kafka with regard to the environment, and he also had some doubts about the usefulness of discussing the European monetary union at the current stage, before the final modalities of that operation were clear. On the

other hand, the subject of German monetary and economic unification was more interesting and far more immediate, given that changes on that front would immediately affect the positions of the major currencies.

The issue of tax harmonization would be more properly addressed under the heading of the international coordination of tax policies, Mr. Kyriazidis considered. According to some rumors in the press, the problem of "beggar thy neighbor" tax policies had been raised by one member country, with a request that the Fund study the possibility of establishing an international code of behavior--an interesting proposition. The Fund could help a great deal in promoting the liberalization of capital movements throughout the world and avoiding distortions in capital markets. In that context, tax harmonization in the European context alone was perhaps of lesser interest to the world and to the Fund.

He attached particular importance to the problem of exchange rate policy advice, Mr. Kyriazidis indicated. It would be useful to establish some guidelines as to the advice that the Fund gave on that subject. In the past, such advice has been precluded for obvious reasons, but recent practice had been more liberal. The practical consequences of exchange rate advice on particular countries should not be ignored.

Mr. Posthumus remarked that he did not agree with Mr. Kyriazidis's suggestion that all countries but the Group of Seven be placed on a bicyclic procedure for Article IV consultations, as that would diminish the relevance of the Fund for other members of the institution.

The Chairman noted that surveillance was at the core of the Fund's responsibilities, and if additional resources should become available, those means should be put toward surveillance, which was where the Fund had both a comparative advantage and a unique responsibility in the system. While the bicyclic procedure could help relieve pressures on staff and Board time, Article IV consultation discussions had been placing increasing demands on the Board's time. It might be possible to organize those discussions somewhat better, by avoiding repetitive statements, for example. Another possibility would be to limit the time the Board devoted to such discussions by having fewer interventions or less repetition of points already made by either the staff or other Directors. Any streamlining of use of the Board's time would be useful.

Mr. Goos said that he would welcome any attempt to shorten the Board meetings. He, too, felt that the Board lost much time to repetition. He also agreed with the Chairman that surveillance was at the heart of the Fund's responsibility. Given the growing number of Fund arrangements in existence, one might question the current effectiveness of the Fund's surveillance.

Mr. Posthumus noted that the statistics showed that the average length of speakers' interventions had been cut by as much as half since two or

three years ago, and he also felt that the Article IV consultation discussions themselves had become more valuable.

The Secretary agreed with the observation of Mr. Clark that while a number of Directors had rightly expressed their concern about the heavy work load and agenda, there had also been a number of requests for additional studies, several of which would be quite important and time-consuming in their preparation. He had noted Mr. Goos's request to lighten somewhat the burden in the month of June, and the staff would be preparing a further revision to the tentative schedule as a result of the current meeting.

He had also taken particular note of Mr. Enoch's comment on the short notice for discussion of country items in particular, the Secretary added. Mr. Enoch had also mentioned that the Board might wish at some point to reconsider the understandings on circulation periods, but in the meantime, the staff would make a concerted effort to meet the current guidelines for circulation periods. In response to Mr. Yoshikuni's question, the paper on enlarged access was about to go to management for its approval and would therefore be circulated to Directors in the next few days. He had also noted Mr. Cirelli's request that a paper on the implementation of access policy be prepared at some stage.

On the rights approach, the Secretary continued, he had noted the request of Mr. Yoshikuni that the associated paper be considered in an appropriate time frame in relation to the structural adjustment facility/enhanced structural adjustment facility review. Similarly, Mr. Dawson had made the point that the Board should be in a position to consider the various papers under the heading of burden sharing in an appropriate sequence; that point was well taken.

In response to a request by Mr. Posthumus, the Secretary indicated that the surveillance review would be postponed from the currently scheduled date of July 2; the staff would propose a later date.

On the world economic outlook, the Secretary said that he had taken note of Mr. Evans's suggestion that the staff circulate in advance a number of special studies. That would be done to the extent that the pace of work permitted. On the other hand, Mr. Clark's suggestion to allow the Board to discuss the medium-term alternatives and policy simulations before the actual writing of the document began, implied a certain change in procedure for discussion of the world economic outlook, and the staff would need to reflect upon that point.

On the international monetary system and exchange rate policy, the Secretary noted that there had been a number of suggestions for further substantive work--on the systemic consequences of the German economic and monetary unification and of EC-92; on the operations of the CMEA; and on issues of currency convertibility in the East European context. In connection with the forthcoming discussion on major issues in the evolving

international monetary system, several Directors had re-emphasized the importance of the Fund's work in general in that area. The staff would need to look for another date for that discussion in order to respond to Mr. Posthumus's request.

The suggestion had been made by Mr. Finaish that the review of exchange rate policy should not be limited to Article IV consultations, but rather, should also include operational cases involving use of Fund resources, the Secretary recalled. The genesis of the proposed paper had been an appendix to the surveillance review, which had naturally focused on Article IV consultations. However, the point that the paper could be broadened was well taken, and the staff would respond accordingly.

The paper on major issues in the evolving international monetary system focused on the role of exchange rate systemic aspects in the industrial countries, and the paper on issues in exchange rate policy for developing countries was intended to focus on a number of exchange rate policy aspects in developing countries, where the exchange rate was used much more as a policy instrument, the Secretary indicated.

He had noted Mr. Yoshikuni's concern about possible leaks to the press from papers on the international monetary system, as well as his concern over the proposed focus on potential output and productivity, the Secretary said.

A number of Directors had indicated their interest in studies of particular aspects of management of the debt situation, the Secretary recalled, and the comments of Mr. Dawson and Mr. Cirelli, as well as others, had been noted in that context.

On the use of Fund resources, Mr. Finaish had asked the staff to study the question of first credit tranche stand-by arrangements, the Secretary observed. The Fund had not had very much experience with such arrangements, and certainly not in recent years. Nevertheless, the staff would reflect on Mr. Finaish's request.

Some Directors had referred to the need to focus more on environmental issues, the Secretary recalled.

A preference for a separate discussion of Bank/Fund collaboration had been expressed by Mr. Enoch, the Secretary noted, and he considered that the Fund would be moving in that direction, particularly since the Bank was also doing so.

Directors appeared to be in favor of the next review of conditionality taking place late in the current year, the Secretary remarked. It was the staff's intention to cover prolonged use in that context.

Directors' views differed somewhat on the need for and timing of the consideration of the papers on the coordination of tax policy, the Secretary continued. The staff would try to find a date for Board consideration that suited all Directors, taking into account that several Directors considered it useful for the Board to have a substantive discussion on the matter.

There would be no difficulty in meeting Mr. Goos's request to move the consideration of the Fund's income position from June 4 to June 8, the Secretary indicated.

Mr. Kyriazidis commented that the paper on harmonization of tax policy was most likely out of date as far as European tax policy was concerned. The paper had been written in 1989, since which time the discussions in Brussels had advanced with a number of the original proposals having been deleted. It might be useful for the staff to prepare a new paper, although as he had mentioned, he would have preferred to discuss tax harmonization at the international level.

The Chairman indicated that the staff could prepare a statement to be circulated in advance of the discussion that would bring the paper up to date.

The Secretary said that he had noted the request of Mr. Posthumus that views be exchanged on the use of ordinary resources in substitution for borrowed resources before the summer recess, if at all possible.

Directors had stressed the importance of trade issues and staff work in that area, and had asked for a more specific timetable in that connection, the Secretary recalled. Updates on the Uruguay Round and on Fund/GATT relations would be prepared when the necessary information was available. Otherwise, the staff planned to undertake a comprehensive review of trade issues in the spring of 1991. That review would include a comprehensive overview of developments, as well as particular focus on such issues as developments in Eastern Europe and the outcome of the Uruguay Round.

The point by Mr. Finaish on the methodology of measurement of per capita income had been noted, the Secretary said.

Turning to developments on the membership front, the quota calculation paper for Czechoslovakia was well advanced, the Secretary indicated, and the hope was that it could be circulated within a week or two. The first staff mission to Bulgaria had taken place, and a follow-up mission was scheduled to depart in the weeks ahead. It was hoped that on that second mission, the further necessary background information for the calculation of the quota could be gathered. The staff was acutely aware of the desire of both those countries to become members by the time of the forthcoming Annual Meetings, if at all possible.

Mr. Finaish remarked that he had not requested a study of the Fund's experience in the use of the first credit tranche. Rather, he had been making the point that there was no guidance from the Board on what kind of policies should be required for such use. There were three lines in the relevant decision, which read as follows: "The Fund's attitude to requests for transactions within the 'first credit tranche'...is a liberal one, provided that the member itself is making reasonable efforts to solve its problems. Requests for transactions beyond these limits require substantial justification" (Selected Decisions, April 30, 1989, page 53). He would like to be able to respond more clearly to countries in his constituency when they asked what sort of policies they should adopt to qualify for use of the first credit tranche.

Mr. Posthumus remarked that since the papers on the review of Fund surveillance were already available, he would like to have that discussion take place sooner than July 2, if possible. On the paper on exchange rate policy in developing countries, his previous point had been that it was perhaps incorrect to imply that there was a different policy for all those countries.

Mr. Yoshikuni said that while he welcomed most of the suggested changes to the schedule as indicated by the Secretary, he would reiterate that he was opposed to postponing the discussion of two items--the rights approach and burden sharing (SCA-2).

Mr. Kyriazidis remarked that he had always been puzzled by the logic that countries with substantial credit outstanding to the Fund under extended arrangements could draw on their first credit tranche. He would welcome an explanation of that policy in connection with Mr. Finaish's request for clarification of first credit tranche drawings.

Mr. Kafka noted that first credit tranche stand-by arrangements had been used quite frequently toward the end of the 1960s and the beginning of the 1970s. Those arrangements had been very useful because they had managed to establish a somewhat closer relationship between the Fund and various countries in the formulation of their domestic programs. Those countries could have drawn without a stand-by arrangement in the first credit tranche, but there was no intention of doing that; they had wanted to underline the relationship with the Fund in the formulation of their policy decisions.

The Chairman indicated that he had nothing to add on the administrative tribunal; management intended to submit a draft statute to the Executive Board sometime during the summer. He had begun discussions with his colleagues in the Bank on the independent evaluation unit, and intended to invite the Executive Board to a first discussion of the pros and cons of such a unit after the Annual Meetings. That being said, the more he consulted on the subject, the more he had mixed feelings. Of course, it

might be convenient for management to have such a unit, but at the same time, care had to be taken in making changes to the Fund's lean, action-oriented character.

On the concerns of Mr. Yoshikuni regarding potential output, coordination of structural policies, and the role of the Fund, the Chairman agreed that those issues were difficult subjects that took one into uncharted waters. But at the same time, they deserved particular consideration by the Fund as they were at the center of the its responsibilities. The need for prudence and confidentiality would of course always be kept in mind.

He had been impressed by the point that time was the Fund's main scarcity, the Chairman remarked. That was the case at all levels of the institution and, in particular, in the Executive Board. Accordingly, he planned to meet soon with Mr. Kafka in that connection and would invite Directors to a lunch in late June or early July to discuss proposals for streamlining the Board's work procedures.

The Executive Directors then concluded their discussion of the Board's work program.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/83 (5/30/90) and EBM/90/84 (5/30/90).

2. EXECUTIVE DIRECTORS - SECRETARIAL AND CLERICAL ASSISTANTS - GRADING

The Executive Board approves the recommendations for the grading and career progression guidelines for secretarial and clerical assistants to Executive Directors as set forth in EBAP/90/113 (5/25/90)

Adopted May 30, 1990

3. EXECUTIVE DIRECTORS' OFFICES - TEMPORARY STAFFING

The Executive Board approves the recommendation of the Committee on Executive Board Administrative Matters regarding the request for an extension of the temporary additional Assistant position in an Executive Director's office as set forth in EBAP/90/135 (5/25/90)

Adopted May 30, 1990

APPROVED: April 22, 1991

LEO VAN HOUTVEN
Secretary

