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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/105

10:45 a.m., August 18, 1989

M. Camdessus, Chairman

Executive Directors

F. Cassell
Dai Q.

E. T. El Kogali
E. A. Evans

L. Filardo

M. Fogelholm
M. R. Ghasimi
G. Grosche
J. E. Ismael

A. Kafka
M. Massé

Y. A. Nimatallah
H. Ploix
G. A. Posthumus

Alternate Executive Directors

C. Enoch

C. S. Warner
J. Prader

S.-W. Kwon
R. J. Lombardo
M. A. Fernández Ordóñez
C. Schioppa, Temporary
A. M. Othman
M. Pétursson

L. E. N. Fernando

C. V. Santos

D. Marcel
G. P. J. Hogeweg
S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
D. J. de Vos, Assistant

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Also Present

IBRD: S. Pallez, Alternate Executive Director for France. Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director. African Department: M. Touré, Counsellor and Director. European Department: M. Russo, Director; T. Pujol, C. A. Vegh. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; T. Leddy, Deputy Director; H. M. Flickenschild. External Relations Department: P. J. Bradley. Fiscal Affairs Department: A. A. Tait, Deputy Director. Legal Department: F. P. Gianviti, General Counsel. Research Department: M. Goldstein, Deputy Director; P. Wickham. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; G. Djeddaoui, R. S. Franklin, B. R. Hughes. Treasurer's Department: G. Laske, Treasurer; D. S. Batten, D. Berthet, S. J. Fennell, D. Gupta, A. J. Tweedie. Office of the Managing Director: A. K. Sengupta, Special Advisor to the Managing Director; P. Shome. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, J. O. Aderibigbe, M. Al-Jasser, J. Basiuk, M. B. Chatah, G. García, S. M. Hassan, J.-L. Menda, P. O. Montórfano, P. D. Péroz, P. Péterfalvy, F. A. Quirós, A. Raza, B. A. Sarr, D. C. Templeman. Assistants to Executive Directors: C. Björklund, B. A. Christiansen, H. E. Codrington, S. K. Fayyad, S. Gurumurthi, M. E. F. Jones, K.-H. Kleine, C. Y. Legg, R. Marino, G. Montiel, N. Morshed, W. K. Parmena, G. Serre, C. C. A. van den Berg.

1. INTERIM COMMITTEE - PROVISIONAL AGENDA; AND WORK PROGRAM - PRIORITIES AFTER 1989 ANNUAL MEETINGS

The Executive Directors considered a draft provisional agenda for the Interim Committee meeting to be held on September 24, 1989 (EBD/89/236, 7/25/89), and the work priorities of the Board for the period after the 1989 Annual Meetings.

The Managing Director made the following statement:

I believe that it would be useful if we took the opportunity of the Executive Board discussion on the provisional agenda of the Interim Committee meeting of September 24, 1989 to exchange views on our work priorities in the period after the Annual Meetings. In the following paragraphs, I will limit myself to principal policy areas. The views of Executive Directors will be most useful in the preparation of the detailed work program statement for Board consideration in October. Later in the year, or in January 1990, we will assess the budgetary implications of our work priorities when we have our annual discussion on the budgetary outlook for the next fiscal year.

1. Ninth General Review of Quotas

With further guidance from the Interim Committee, we will have to move fast to implement the request of the Board of Governors in May that "the Executive Board [to] complete its work on the Ninth General Review of Quotas with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of this year." As we have agreed in earlier Board discussions, this timetable implies that the Executive Board will have to finalize its work so that the relevant resolution and related material can be submitted for voting by the Board of Governors by November 15, 1989.

2. World economic outlook

The spring 1990 world economic outlook will as usual review recent trends and assess short-term prospects in the world economy. In addition to the presentation of alternative medium-term scenarios, attention will be devoted to analyzing longer-term structural changes in the major countries--including demographic trends--and evaluating their policy implications. If needed, follow up work after the September 8 discussion of the role of national saving in the world economy will also be undertaken.

3. Implementation of the debt strategy

In the months ahead we will have to review carefully progress in implementing the debt strategy, including our experience with applying the Fund's resources for the financing of the programs in the context of debt reduction, and with the modification of the policy on financing assurances. Also, we will follow closely the problems faced by a number of heavily indebted countries that, because of their income level and structure of debt, are neither eligible for the Toronto rescheduling terms of official creditors nor likely to benefit substantially from the Brady initiative on voluntary reduction of debt and debt service obligations to commercial banks. A Board paper on these and related issues will be scheduled for discussion in the first quarter of 1990. On that occasion the Board may also wish to consider a paper that will provide a comprehensive review of recent experience with multilateral official debt rescheduling. Furthermore, building upon the discussion at the July 10 Board seminar on analytical issues in debt, the staff plans to undertake a study of the relationship between domestic and external debt.

4. The international monetary system and the SDR

I look forward to the Interim Committee's orientation for future work of the Executive Board on the international monetary system and the role of the Fund. Following the June seminar on key issues in the functioning of the international monetary system, the staff plans further work on alternative anchors for the system and on international dimensions of monetary policy. I also look forward to guidance from the Executive Board in its August 28 discussion on further considerations on international liquidity, the systemic role of the SDR, and the question of SDR allocation, for further work in that area.

5. Overdue financial obligations

As pointed out in the latest six-monthly report, overdue financial obligations to the Fund have continued to increase; there has nevertheless been some progress toward the resolution of members' overdues. We have been working intensively with several member countries toward the clearance of their arrears before they become very large, and have avoided new cases from becoming protracted. We have strengthened our preventive and remedial procedures for dealing with overdues cases, including communications with Governors of the Fund and multilateral financial institutions. There is undoubtedly much greater awareness now on the part of member countries generally, that it is against their fundamental self-interest to incur arrears vis-à-vis the Fund, and that arrears damage the cooperative nature of the institution. We hope, therefore, that the need

for remedial action will remain limited. Nevertheless, in cases of protracted arrears and demonstrated unwillingness to collaborate effectively with the Fund, we should stand ready, after due deliberation, to apply the remedial actions that are available to the Fund. With the guidance of the Interim Committee, we will continue to implement our collaborative approach and press for the elimination of arrears. The implementation of the collaborative approach may need to be reviewed in early 1990.

6. Policy reviews

Work will need to be initiated on the next review of conditionality, to take place in the second half of 1990. To guide the staff in this task, we would need to discuss the nature and scope of this review, and to identify particular areas of interest that we would like the review to address.

A staff paper for the review of the compensatory and contingency financing facility will be available for Board consideration in the last quarter of 1989; and a staff paper reviewing the operation of the structural adjustment facility and enhanced structural adjustment facilities will be available for Board consideration in the first quarter of 1990. A paper for the biennial review of the implementation of surveillance and of the principles and procedures for surveillance contained in the 1977 document on surveillance over exchange rate policies will be prepared for Board discussion not later than April 1, 1990.

7. Trade issues

The Development Committee may give us guidance for further work in that area. Progress reports on the Uruguay round and on aspects of Fund/GATT collaboration may need to be prepared.

8. Selected staff studies

Executive Directors will have noted that we have already placed on the agenda for consideration after the Annual Meetings, forthcoming staff papers on: capital income taxation and international capital flows; tax harmonization in the EC; international capital markets - developments and prospects; and officially supported export credits - developments and prospects.

Research in the area of program design is continuing, and will be circulated mainly in the form of working papers.

In addition, the staff is well advanced in its preparation of a paper on market-oriented reform in planned economies, with background papers on the cases of the People's Republic of China, Hungary, and Poland. Board consideration in an appropriate format could take place later this year.

A paper on Islamic fiscal policy will be ready for circulation in the last quarter of 1989, and a paper on some aspects in economic policies in Islamic countries will be available for circulation early next year.

9. Administrative matters

As envisaged in the May 1989 discussion of the work program, staff papers for Executive Board action in the last quarter of the year will be put forward on: review of Staff Retirement Plan, quadrennial benefits survey, and review of Medical Benefits Plan. In connection with the work on the Administrative Tribunal, a paper containing a draft statute will be issued in this same period.

Mr. Kafka said that it would be useful if the Chairman could comment on the ideas of Mr. Ruding--Chairman of the Interim Committee--on the appropriate division of agenda items between the morning and afternoon sessions of the Interim Committee. He had no remarks to make on the provisional agenda, but would note his intention after the Annual Meetings to make several "subversive" suggestions about the Interim Committee, which he believed was not making the best use of Ministers' scarce time. In that regard, he questioned whether the entire morning discussion of the Committee should be devoted to a "multilateral monologue" on the world economic outlook. The afternoon discussions in contrast, were most helpful.

Perhaps it would be possible to have the Committee's draft communiqué circulated in the early afternoon, Mr. Kafka inquired. Indeed, the draft communiqué of the Development Committee was distributed before the first meeting of that Committee. Even so, he recognized the genuine differences between the discussions of the Development and Interim Committees.

With respect to the work priorities after the Annual Meetings, he had little to say other than that he would obviously be looking forward to the discussion on the international monetary system, and especially the papers reviewing the Fund's experience in implementing the strengthened debt strategy, together with the paper on countries that were neither eligible

for the Toronto summit rescheduling terms nor likely to benefit substantially from the Brady initiative, Mr. Kafka continued. The fact that some of those countries' debt had no discount in the market was not of much relevance to their situation, given the unfortunate fact that demand curves were kinked.

He hoped that the envisaged review of conditionality would give Directors an opportunity to discuss an old idea, not as yet popular, of establishing an independent evaluation unit in the Fund, Mr. Kafka added.

The Chairman commented that Directors should not hesitate to make suggestions on the appropriate distribution of agenda items between the morning and afternoon sessions of the Interim Committee. Chairman Ruding would certainly take into account the comments of the Board before forming his own judgment on how the Interim Committee meeting should be conducted.

Mrs. Filardo remarked that she broadly agreed with the provisional agenda for the Interim Committee. Like Mr. Kafka, she had also wondered about the best distribution of agenda items between the morning and afternoon sessions of the Committee, and particularly about the order of agenda items to be discussed in the afternoon. She believed that the debt strategy could certainly be discussed profitably on an informal basis, as could be some aspects of the world economic outlook. In another connection, her authorities believed that member countries--particularly the main shareholders in the Fund--would soon have to take definitive positions on the Ninth General Review of Quotas.

Regarding work priorities after the Annual Meetings, she agreed with the importance assigned by the Chairman to reviewing the Fund's experience with providing resources for programs involving debt reduction and with the modification of its policy on financing assurances, Mrs. Filardo stated. Also welcome were the papers on the relationship between domestic and external debt, and particularly the comprehensive review of recent experience with multilateral official debt rescheduling. It was unfortunate, however, that the paper on the circumstances warranting approval or nonapproval under Article VIII of restrictions giving rise to payments arrears was no longer included in the tentative agenda. Its consideration had already been postponed once. Her authorities wished to know when that paper would be discussed, as it was of special importance to gaining a clearer understanding of the relationship between the Fund, debtor countries, and private creditors in dealing with situations of arrears.

The staff had been issuing high-quality papers on the international monetary system and the SDR, an important topic on which the Board had been holding fruitful discussions, Mrs. Filardo noted. She hoped that the issue would no longer have to be discussed in academic terms alone, and that a political consensus in the area would emerge, especially among the industrial countries.

In his opening statement, the Managing Director had indicated that Directors would need to discuss the nature and scope of the review of conditionality, to identify areas of interest that would need to be addressed by the staff for the review, Mrs. Filardo observed. During the recent review of conditionality (EBM/89/76 and EBM/89/77, 6/19/89), one of the main issues to emerge was the appropriate methodology to use in reviewing conditionality, whether individual country cases or cross country analyses should be used, and also the appropriate scope for studies of selected issues. Directors had agreed that there was an important need for further research and empirical work in key policy areas in the context of program design. However, it was her impression that the research in the area of program design had been downgraded in importance, given that the Managing Director had suggested that the studies would be circulated mainly in the form of working papers. While an important number of working papers were distributed in the Fund, many Directors did not have an opportunity to consider them in view of the ongoing heavy work load. Program design was an important topic that had been on the tentative agenda since November 1988 for a seminar, and should be discussed by the Board. After all, program design was a basis for assessing the implementation of Fund-supported programs and the adequacy of conditionality. In the latter connection, Directors should recall the conclusions contained in the summing up of the recent review of conditionality, and note the point made by several Directors that the review should be conducted by an independent unit.

She hoped that the seminar on burden sharing would be held, and that the paper on principles for calculating currency amounts under the operational budget would be considered by the Board, Mrs. Filardo added.

Coming back to the provisional agenda for the Interim Committee, it might be useful if some of the envisaged Article IV consultations before the Annual Meetings were postponed, given the heavy work load and the many policy papers and important country matters--such as the coming reviews of the Fund-supported programs in Mexico and Venezuela--that would have to be considered shortly, Mrs. Filardo suggested.

The Chairman responded that he could go along with postponing discussions of some Article IV consultations if the Board viewed that need as imperative, although he would note at the same time that surveillance was the primary responsibility of the Fund.

Mr. Fogelholm stated that Article IV consultations were indeed important, but he noted that 11 such consultations would be discussed by the Board in only four working days between September 11 and September 18. Some of those consultation discussions were nonoperational ones in the sense that they did not involve Fund-supported programs. To avoid overclustering of the agenda, he supported Mrs. Filardo's suggestion to postpone some consultation discussions to the extent feasible.

The Chairman replied that Mr. Fogelholm's point was well taken. An effort could be made, with the Executive Directors concerned, to arrive at a more appropriate balance.

The Interim Committee agenda could not give the same degree of emphasis to the strengthened debt strategy as had been the case for the April meeting, the Chairman observed. The Committee's recommendations at that time had led to subsequent important decisions by the Executive Board, which the Fund was in the process of implementing. That did not mean a lessened interest in the strategy by management. A key priority would have to be the discussion on the Ninth General Review of Quotas, which should be concluded before end-1989, as specified by the Interim Committee.

Mrs. Filardo commented that she did not want to prejudge the Interim Committee's discussion on the debt strategy, but she was sure that all members would be anxious to consider progress in implementing the strategy and, if necessary, in making some improvements to it.

Mr. Kwon made the following statement:

My authorities have no major problem with the proposed Interim Committee agenda.

Items 4 and 5 on the debt strategy and the Ninth General Review of Quotas will clearly need to be awarded a high priority in the Committee's deliberations. We would think it sensible to allow for these two issues to be the focus of the Committee's informal discussions, either during the working luncheon or in the afternoon session. Item 6--access limits for 1990--is obviously closely linked to the quota review, and we would not see a need to allow for any extensive, separate discussion on this item.

There is obviously also merit to seeking the Committee's guidance regarding the Fund's broader responsibilities for the international monetary system, and, more generally, for the future role of the Fund. This chair's views on the priority that should be attached to the work on SDRs and, in particular, to the possibility of a further allocation are, however, well known, and need not be repeated.

Regarding the Managing Director's statement on work priorities for the period following the Annual Meetings, I have no major difficulties, as the statement appears comprehensive and seems to achieve a reasonable balance between the more pressing issues confronting the Fund and its longer-term systemic responsibilities.

It is increasingly apparent from the Board's discussions on the administrative budget that, if demands on the staff and other resources are to be contained, the Board needs to take the lead in establishing, and rigorously adhering to, clear priorities in its own work program. As reflected in the provisional Interim Committee agenda, the most immediate and pressing challenges confronting the Board are, of course, the Ninth Quota Review and the debt strategy. I particularly welcome the reference in the Managing Director's statement to a forthcoming paper on the options open to those heavily indebted countries unlikely to benefit from either the Toronto terms for rescheduling official debt or the Brady initiative. I have no doubt, however, that the only solution for these countries remains the continued pursuit of strong adjustment programs.

Regarding the world economic outlook, we should acknowledge that the scope of this twice yearly exercise, and the demands it makes on the staff, has greatly expanded over recent years with the development and refinement of economic indicators and the medium-term scenario exercise. Perhaps we should currently look to a period of consolidation. While the proposed work on longer-term structural changes in the major economies would no doubt be interesting, it would also clearly involve a further major extension of the world economic outlook exercise and, in the process, weaken the emphasis on short- and medium-term macroeconomic stability, which should remain the Fund's primary responsibility. I would see nothing to be gained from duplicating work being done in other forums, such as the OECD.

I understand the importance of pushing on with our continuing work on the evolution of the international monetary system, which is central to the Fund's *raison d'être*. However, we need to be wary of casting our net too widely and not providing sufficient guidance for future staff work in this area. Papers that come to the Board on these matters need to be more focused and have greater practical emphasis than some that we have seen in the past. I would query in particular the worth of further work on nominal anchors, which is likely to be of only academic and esoteric interest; anchors evolve and are not created by fiat. None of these points deny the need to continue to explore options for longer-term reform of the international monetary system, but we need to ensure that our efforts in this regard are selective and realistic. Similarly, the majority of the members of my constituency would attach low priority to further work on SDRs at this time.

The proposed review in early 1990 of the intensified collaborative approach to tackling overdues will be timely. For our part, this constituency will still be inclined to believe that, while progress has been made, more could be done to

improve prevention and to enhance the Fund's early warning system, including, for example, greater Board involvement in potential problem cases before arrears emerge.

By way of a final comment, prevention is, of course, closely linked to conditionality and the overall strength of Fund programs. We would therefore attach particular importance to the coming review of conditionality and the efforts to improve program design.

Mr. Lombardo indicated that he agreed fully with the provisional agenda for the Interim Committee and that he had no comments to make on it.

The discussion on work priorities after the Annual Meetings was a welcome and early opportunity to exchange views on the matter, and should help in preparing the work program and the schedule of work for the months ahead, Mr. Lombardo continued. In the current circumstances, the discussion was especially appropriate given the substantial amount of work on the Ninth Quota Review that would have to be completed in a short period of time, so that relevant proposals could be submitted for voting by the Board of Governors by mid-November. Work on the Ninth Quota Review would certainly have to be the Board's main task during October and early November.

He hoped that the paper on the heavily indebted countries that were benefiting from neither the Toronto rescheduling terms nor the Brady initiative would not be delayed, and that it might be discussed informally in the last quarter of 1989, Mr. Lombardo stated.

The nature and scope of the recent review of conditionality had been adequate, Mr. Lombardo remarked. As his chair had mentioned during that discussion, the case study approach, as compared with the cross country approach, was appropriate and facilitated consideration in greater depth of most of the countries with Fund-supported adjustment programs. It would also be helpful in guiding such programs in the future. His chair was looking forward to the coming review of the compensatory and contingency financing facility, particularly given the increased use made of the facility in the recent period. An objective analysis of the matter was called for.

Mr. Nimatallah said that he found the provisional Interim Committee agenda reasonable. He hoped that the world economic outlook discussion would take place as usual in the morning, in view of the importance of Governors giving their views on developments in the world economy.

He broadly agreed with the Managing Director's opening statement on work priorities after the Annual Meeting, Mr. Nimatallah went on. In particular, he was gratified that attention would be devoted to analyzing long-term structural changes in major countries and to evaluating their

policy implications. Given some of the possible hazardous side effects of structural measures that might incorrectly convince some countries to forgo further reforms, he hoped that the further step of improving coordination in the structural field could be taken, with a view to achieving a more equitable distribution of the benefits and costs involved among the countries implementing the structural reforms. He was pleased with the progress that had been made toward accelerating fiscal reform, although, at the same time, he was concerned that such reform might cause some difficulties in terms of the overall outlook, which could be minimized with increased coordination among member countries. Perhaps the Fund could assist in that regard.

His authorities appreciated the fact that the Fund was going to pay attention to countries that were neither eligible for the Toronto rescheduling terms nor for the Brady initiative, Mr. Nimatallah noted. Such evenhandedness was commendable. Also, it was good that the staff was planning further work on alternative anchors for the international monetary system, work that would be of positive import for the future of the system. At the earliest stage possible, the Fund should help in that regard, and might indeed settle eventually on the deutsche mark as the alternative anchor.

The Chairman commented that the Fund could draw a lesson from Germany's excellent record as a nominal anchor in a smaller setting.

Mr. Nimatallah continued that he was certainly pleased by the reference in the Managing Director's opening statement that "progress reports on the Uruguay Round and on aspects of Fund/GATT collaboration may need to be prepared." It would be regrettable if the world missed an opportunity for trade liberalization under the Uruguay Round, and he wondered whether the Fund could encourage the leading industrial countries to take the initiative in accelerating the reduction of trade impediments--particularly nontariff barriers. There was only a short time left before the end of the Round.

He appreciated the effort by the staff to better understand and to better inform the Board of market-oriented reform in planned economies, and of economic policy in Islamic societies, Mr. Nimatallah pointed out. The envisaged papers would be helpful to the Fund in designing programs for those countries.

Mr. Massé made the following statement:

My authorities have little difficulty with the choice of items to which the Managing Director has given prominence in his opening statement. My chair's comments are therefore mainly about priorities, coverage, and procedure.

First, let me restate the high priority that my authorities attach to a timely completion of the Ninth General Review of Quotas by end-1989, as mandated by the Interim Committee.

Recently, the Board discussed this issue twice, at length, and I believe that the clarifications that emerged should allow further progress to be made during the fall.

As usual, we attach great importance to further work on the debt strategy. Given that we are seeing the first cases of the strengthened debt strategy in operation, we think that it is appropriate to have some review of its implementation. Both the Fund's involvement with the debt strategy and the difficulty in negotiating individual cases behoove us to keep the process under continuous review.

The world economic outlook exercise has now emerged as one of the more enlightening ones to be undertaken by the Fund. In its published form, it is eagerly anticipated by the economic and financial community, and, accordingly, merits our full support. In contrast, my authorities continue to attach relatively low priority to work on the role of the SDR, and wonder whether it is not somewhat ambitious to embark on a full examination of the international monetary system at this time.

We agree with the emphasis that has been given to the issue of overdue financial obligations. As we have said before, large arrears can undermine the very ability of this organization to function. This chair will continue to support the collaborative approach and other reasonable initiatives that are designed to solve this problem.

With respect to policy reviews, we attach very high priority to the upcoming review of the compensatory and contingency financing facility. The recent discussions on Trinidad and Tobago (EBM/89/104, 8/14/89) and Jordan (EBM/89/89 and EBM/89/90, 7/14/89) have shown that the operational elements of the facility remain a controversial issue. As regards conditionality, we recall that during the discussion on this topic in June, it was agreed to consider the establishment of a separate in-house unit to evaluate Fund-supported programs. We would wish to know the current status of that proposal. In addition, we are curious as to when the much delayed discussion on the bicyclic procedure will take place, and whether it will form part of the general work on surveillance.

During the previous Board discussion on the work program (EBM/89/53, 5/12/89), some chairs, including my own, expressed reservations about the timeliness of the proposed study on EC tax harmonization. It would seem to us that the study should be part of the broader study on capital income taxation and international capital flows. In this regard, we would suggest that those two papers, which are due for discussion on October 25, 1989 should be considered essentially as one topic.

On administrative matters, we welcome the upcoming papers paying due regard to issues of particular importance to the staff, namely, the retirement and medical benefits plans, and the Administrative Tribunal. These concerns have a bearing on the Fund's ability to continue to recruit and to retain the high-quality personnel without whom the Fund's work could not be effective.

The Chairman observed that Mr. Massé's last point was particularly relevant. The Fund was involved in an unprecedented number of countries--in designing, negotiating, and monitoring programs--and he saw no respite from those responsibilities in the future.

Mr. Warner noted that the Interim Committee's proceedings were not altogether efficient and that the periods selected for agenda items was of importance. His authorities considered that the world economic outlook discussion should remain an important morning agenda item. However, they would suggest that a discussion on international policy coordination be added to that agenda as an aspect of the world economic outlook. His authorities also believed that a logical conclusion to the world economic outlook discussion would be to combine the agenda items on SDR allocations and on access limits for 1990. Moreover, as in the past, the discussion on debt should be split, so that the morning session addressed the debt situation while the first item of the afternoon session addressed the debt strategy.

The luncheon discussion, because of its private character, would probably be a good opportunity to consider the issue of overdue financial obligations and to begin discussion on the Ninth Review of Quotas, Mr. Warner continued. It would be important to have completed the over-dues discussion before the afternoon session. After the discussion of the debt strategy as the first item of the afternoon session, he would suggest that the international monetary system and the role of the Fund be addressed, which would contribute to the following discussion on the Ninth Quota Review.

He supported postponing some of the many Article IV consultation discussions scheduled for consideration prior to the Annual Meetings, Mr. Warner stated.

The Ninth Review of Quotas had clearly been given priority in the Managing Director's opening statement on work priorities after the Annual Meetings, Mr. Warner went on.

Recent discussions in the Board on requests for the use of Fund resources had considered to a reasonable degree the use of debt and debt-service reduction in new arrangements, where possible, Mr. Warner stated in regard to work priorities. While it was appropriate that more attention be given to the group of countries that were neither eligible for the Toronto rescheduling terms nor likely to benefit from debt or debt-service

reduction, his chair believed that the subject had been covered sufficiently in the papers prepared for the August 25 discussion on the management of the debt situation. The question of whether a new and extensive paper was necessary might best be decided at that discussion. He was especially pleased to see that the administration by the Fund of escrow accounts in support of debt and debt-service reduction operations had been addressed in one of the papers for the August 25 discussion. Escrow accounts would be a significant factor in some of the early cases involving those operations, particularly Mexico.

Also gratifying was the fact that alternative anchors for the international monetary system and the international dimension of monetary policy would be prominent topics in the staff's future work, Mr. Warner remarked. As his chair had stated on previous occasions, it did not believe that the question of the SDR was ripe for major consideration, particularly given the resource constraints of the staff.

The Board's work on overdue financial obligations had shown renewed progress over the past few weeks, although his authorities remained deeply concerned that arrears to the institution continued to grow, Mr. Warner pointed out. The Interim Committee's discussions next month on the topic would be materially important to what the Board would be able to accomplish in policy terms in that area. In any event, the framework of the Fund's arrears strategy, or its "arrears management system," had begun to take shape. Like many systems that he had been familiar with in the past, once such a framework was in place, the will to implement it and the force in doing so became the main concern. While the Board had often referred to the willpower of member states in addressing the issue of arrears, the Board's own performance in that regard would also be important, once it had received further guidance from the Interim Committee on pursuing the strategy with timeliness, forcefulness, and consistency.

The Chairman commented that he agreed entirely that the framework of the arrears strategy was in place and that the issue at present was the will to implement the strategy fully. He hoped that he would be able to convey some good news to the Interim Committee on the question of arrears.

Mr. Warner continued that, while he saw advantages to both the cross country and case study approaches in reviewing conditionality, he tended to favor the cross country approach as being the most useful for the next review. At the previous review, the case studies had become somewhat unwieldy in terms of their continuity with past reviews and in terms of the amount of time needed to consider individual cases. Reviewing a wider sample of country programs through a cross country approach might be more revealing with respect to the effectiveness of Fund conditionality. Moreover, it would be useful if the staff paid particular attention to the effectiveness of fiscal policy at the next review, often referred to as the "Achilles' heel" of country adjustment efforts. Further strengthening of staff commentary on related structural issues, such as on the efficiency of public enterprises and tax systems, the effectiveness of structural benchmarks and performance criteria, the proper degree of

specificity and appropriateness of the sequencing of such measures, and the thoroughness of their implementation would be useful. In connection with conditionality, several speakers had referred to the utility of establishing an independent evaluation unit within the Fund. He considered that such a unit would be invaluable in the long run.

Extensive discussions would obviously take place at the review of the compensatory and contingency financing facility, which he hoped could be completed before the December 1989 deadline, Mr. Warner commented. The review could include consideration of both financing windows in depth, and examine, in particular, why the contingency element had been used so infrequently, the incentives for using that element, and the aspect of the compensatory element that were regarded as preferable by Fund members.

His chair continued to attach great importance to effective and timely cooperation with the GATT, especially with the Committee on Balance of Payments Restrictions, Mr. Warner observed. Article IV consultation discussions in the Board had brought to the fore the extremely important role that the Fund could play in trade liberalization.

He looked forward to the coming papers on the Staff Retirement Plan, the quadrennial survey of benefits, the survey of medical benefits, and the paper on expatriate benefits, Mr. Warner added. A fairly close grouping of those items on the agenda would add continuity to the discussion and perhaps permit the Board to complete its consideration on the matters by end-1989. He hoped that the Board could address the further business of the Joint Standing Committee on Compensation by end-1989, which his authorities considered to be important.

The Chairman said that he recalled Mr. Grosche's point in that regard, and that he would have no problem with setting a date for discussing the matter in the Board.

Mr. Warner, in concluding his remarks, suggested that the Fund might consider developing its own system for declassifying Fund papers.

The Chairman said that he had been impressed by the increasing trend toward openness on the part of institutions in a variety of fields. Academics were of course eager to enlarge their scope for research. However, there were conflicting national traditions in the area; the United States, for instance, followed a comparatively open policy in promptly disclosing bank archives. The Fund would consider the matter carefully.

Mr. Nimatallah commented that he supported Mr. Warner's remarks on policy coordination and trade liberalization. As early as possible in 1990, the Fund could perhaps do more technical work on the benefits of policy coordination, including on the reduction of international frictions and the benefits accruing to all parties. The staff could also do more

technical work showing how certain countries could take the initiative in liberalizing their trade sectors without suffering the negative consequences that some of them were apprehensive about.

Mr. Cassell remarked that the list of items in the provisional agenda for the Interim Committee was a complete and not unexpected one. The grouping of items between the morning and afternoon sessions of the Committee might, however, be restructured with a view to making the important discussion on the world economic outlook less repetitious than in the past, a point on which he agreed with Mr. Kafka. Mr. Warner had made an attractive suggestion to divide the discussion on debt into consideration of the debt situation in the morning and the strategy in the afternoon. There was probably no means of preventing Ministers from going over much of the same material in the area of debt than they had covered in the April meeting of the Committee, given the topic's importance and the fact that developments in the strategy had been significant in 1989. Nonetheless, the discussion would be enhanced if the conventional remarks on the world economic outlook were supplemented by consideration of the debt situation, which might also provide a good prologue to the interesting discussions that should occur in the afternoon session.

He agreed with most of the points made by previous speakers on work priorities after the 1989 Annual Meetings, Mr. Cassell went on. It was of course appropriate that the Fund closely follow the problems of those countries that were not eligible to benefit from either the Toronto rescheduling terms or the Brady proposals, and should perhaps be given more urgent consideration than was implied in the Managing Director's opening statement. He hoped that similar urgency would be attached to the review of multilateral official debt rescheduling, which merited a full discussion in its own right before too long.

It was gratifying that the review of the compensatory and contingency financing facility had been postponed until the last quarter of 1989, because the uncertainties in the interpretation of the facility's guidelines--highlighted in the recent Board discussion on Jordan's request for financing under the facility (EBM/89/89 and EBM/89/90, 7/14/89)--had demonstrated the urgent need for a full and careful analysis of the subject before the Board came to review it, Mr. Cassell observed. He did not see a similar urgency for discussing the review of surveillance, but noticed the absence of any reference in the Managing Director's statement to a specific review of the bicyclic procedure, which might be an aspect of surveillance that merited some early discussion.

The reviews of staff benefits and the Staff Retirement Plan were obviously long overdue, with the latter going to have to depend heavily on the analysis of comparative demographics of the Fund and the Bank, Mr. Cassell pointed out. The question of demographics had arisen strongly in the Joint Committee on Compensation, and he was aware that some work was taking place in the area. He hoped that information of that sort would be available as background material for the Board's discussion on the pension plans. As had been agreed earlier, the Board should discuss a

draft statute for the Administrative Tribunal. He hoped that Directors would first be provided with answers to two questions that he had raised on an earlier occasion, concerning the legality of the Tribunal under the Articles and the constraints that it might place on Board deliberations.

He had missed a reference in the Managing Director's opening statement to the review of the activities of the External Relations Department, which were of some importance to the Fund's image in the world, Mr. Cassell stated.

Mr. Grosche remarked that he could support most of the points made by Mr. Cassell and could go along with the provisional agenda for the Interim Committee. He also agreed with Mr. Warner's suggestion that the discussion of the world economic outlook in the morning session should include the topic of international policy coordination, which was an important question to his authorities. Like Mr. Cassell, he agreed that discussion of debt should, to the extent possible, be an aspect of Ministers' comments on the world economic outlook, particularly given the extensive discussions and the many new measures agreed during the spring meetings, and their current implementation. Implementation aspects of the strengthened debt strategy were indeed important, and should be taken up, particularly their consequences for the Fund in terms of the Ninth Quota Review, overdue financial obligations, and access limits. Given that as much time as possible should be reserved for discussion of those items, he tended to believe that the afternoon should not be dominated by the review of the debt strategy. While Mr. Cassell was correct that one could not effectively control what Ministers preferred to comment on, the Fund's policies should, to the extent feasible, be in the forefront of Ministers' attention during the afternoon session.

Discussion of access limits could certainly be included in the morning session in terms of the absolute level of access preferred by Ministers for 1990, Mr. Grosche added. The precise terms of access would have to be decided in the light of the decisions made in the Ninth Quota Review.

The agenda item on the orientation for the Executive Board's future work on the international monetary system and the role of the Fund was important and welcome, Mr. Grosche said. He would expect, however, that his Minister would reiterate the view that the Fund should try to make the current system work more efficiently and smoothly, avoiding potential crises by having appropriate policies implemented under the Fund's surveillance exercise that would lead to a more stable system. He shared Mr. Kwon's view that the search for alternative anchors for the system was not a high priority. If each and every monetary authority tried to be an anchor for the system, it would be an excellent system. The Fund could probably then do away with its search for alternative anchors.

He could go along with the work priorities specified in the Managing Director's opening statement, except for the point he had made on the staff's plans for further work on alternative anchors and the seeming high

priority placed on the SDR, Mr. Grosche continued. Mr. Warner and Mr. Cassell had already covered most aspects of administrative matters, although he would especially emphasize the need to complete the work of the Joint Committee on Compensation. He welcomed Mr. Cassell's comments on the Administrative Tribunal. As a final matter, perhaps the budgetary consequences of the coming work program might be assessed somewhat before the end of 1989, to allow the Administration Department sufficient time to structure the expenditure proposals for fiscal year 1991 in a manner that would take account of the priorities specified by the Board. He would leave the matter to the discretion of the Administration Department and the Chairman.

Mr. Fernando made the following statement:

On the Interim Committee agenda, we agree with the topics for discussion. We would, however, concur with Mr. Warner that the subject of international economic coordination among industrial countries should be added to the world economic outlook discussion. For the reasons spelt out by the Chairman, consideration of the Ninth General Review of Quotas should be given priority in the informal afternoon session. Similarly, because of its link to the quota review, the question of access limits should also be discussed at that time. An opportunity should be provided during the formal morning session for an exchange of views on the debt strategy. At its previous meeting, the Interim Committee considered this subject at length, and important decisions have been taken within the Fund since then on the strategy. However, given the continuing emphasis on and the evolving nature of the debt strategy, the Board should consider the possibility of further discussion of this issue in the afternoon informal session.

We welcome the inclusion of an item on the Interim Committee agenda seeking the Committee's specific guidance on SDR allocations and on the role of the Fund in relation to the international monetary system. We particularly like the reference to the allocation of SDRs, and rightly so, given that the Board needs to make up its mind on how far it is prepared to go toward achieving the objective of making the SDR the principal reserve asset. This issue is closely linked to that of the international monetary system and the role of the Fund. At a time when several other forums and mechanisms are having an impact on the system, we reiterate our desire that the role of the Fund in that system be specified with a reasonable degree of precision.

Regarding the Managing Director's opening statement on work priorities after the Annual Meetings, the Board is well behind schedule on the Ninth General Review of Quotas. As most chairs have already indicated their respective positions on the matter

in clear terms--at least on the size of the overall increase--the Board should attempt in its next report to the Committee to induce the Committee to provide definitive parameters for concluding the Ninth Quota Review. Opinions, however, differ on the size of the quota increase. We would therefore again request that the Chairman hold informal discussions with smaller groups in the Board, or bilaterally with Directors, with a view to arriving at a consensus that would be in line with the growing responsibilities of the Fund. On the distribution of the quota increase, the Board's aim should be to find a solution that is consistent with the need to "maintain a balance between different groups of countries," as clearly laid down by the Interim Committee.

The world economic outlook should go beyond reviewing recent trends and assessing short-term prospects, or presenting medium-term scenarios. In developing this exercise further, we would like to see an in-depth analysis of the effects of international economic policy coordination among the major industrial countries. Inasmuch as a certain degree of stability has been perceived in the area of policy coordination, a question arises whether the modalities currently employed could have a bearing on the uncertainties that emerge from time to time. Furthermore, in view of the growing interdependence in the world economy, we should pursue the study of interrelationships or the transmission mechanism. This will help the Fund to tackle the problems of growing uncertainties. In my chair's view, it is not sufficient to elaborate a medium-term growth scenario alone. We must also examine how best to ensure orderly and balanced growth.

On the subject of debt, the proposal to consider the situation of the heavily indebted countries not covered by the Toronto initiative or the Brady proposals is timely.

Matters relating to further allocation of SDRs have been discussed on a number of occasions and, I must say, exhaustively during the past seven to eight years. Directors have clearly stated their positions. While there is of course always scope for further and welcome work in that area, we suggest that the Managing Director, as Chairman of the Board, perhaps consider holding discussions with Directors in smaller groups with a view to arriving at a conclusion.

On overdue financial obligations, the Chairman will recall that many Directors had substantial reservations during the discussion on the application of remedial measures, feeling, in particular, that such measures were a bit too early, given the punitive character of some of the measures contemplated. My chair preferred allowing a reasonable amount of time to lapse to give the intensified collaborative strategy a chance to

provide a significant impetus to the problem of overdues. Nevertheless, we have gone along with the consensus to shape remedial measures. We especially welcome the Managing Director's intention to review the implementation of the intensified collaborative approach in early 1990. This review should be before the spring meetings. It may be recalled that the intensified collaborative strategy is directed at existing cases, some of which involve large amounts of money. Given the complexity of the tasks observed so far with the support groups, Directors need to focus on all options to help clear protracted arrears.

According to the Managing Director's opening statement, the review of the structural adjustment and enhanced structural adjustment facilities is scheduled for the first quarter of 1990. As I recall, and, indeed, as reflected in the Chairman's summing up for the previous review in March 1989, the Board decided that it was best that the 1990 review take place around June. I wonder whether there were particular reasons for advancing that review, given the earlier reasons for delaying the review from the first to the second quarter.

Mr. Othman stated that his chair had no major problems with the provisional agenda for the Interim Committee.

Concerning work priorities after the 1989 Annual Meetings, despite the guidance that the Board would receive from Governors during the September meetings, the current discussion remained useful in guiding preparatory work by the staff on the various issues that would come before the Board, Mr. Othman continued. The Ministers' guidance was particularly important on subjects such as the Ninth Quota Review, key issues in the international monetary system and the role of the SDR, and the future emphasis required in the world economic outlook exercise. It was also apparent that both the debt strategy and the Fund's strategy on overdues would require active Board involvement in the months to come.

He was pleased that the problems of countries that were neither eligible for the Toronto rescheduling term nor the Brady initiative would be given appropriate attention, a topic that should be discussed as early as possible, Mr. Othman commented. Also, continued active Board involvement would be necessary for the success of the intensified collaborative approach to solving the problem of overdues to the Fund. His chair attached high priority to the policy reviews outlined in the Managing Director's opening statement, and especially as those reviews might be expected to draw upon the results of ongoing research on program design. The review of conditionality would be particularly important, and, as emphasized by a number of Directors at the review in June of the current year, there was a need to focus on using cross country statistical analyses, and on the efficacy of conditionality in terms of particular policy instruments such as exchange rate policy, interest rate policy, and trade

liberalization. Such cross country analysis might be augmented through a few well chosen case studies that could serve to focus attention on the practical problems in framing and implementing policy guidelines relating to particular instruments. He hoped that the Fund would establish an independent evaluation unit for the purpose of assessing conditionality.

The recent Bank/Fund paper for the Development Committee on the impact of the external environment and the financing requirements for growth-oriented structural adjustment highlighted the major detrimental impact of trade restrictions on the economies of developing countries, Mr. Othman observed. The Development Committee might give further guidance for work in that area; and such restrictions in major countries might also be analyzed in the spring world economic outlook, as an aspect of the projections, and in terms of longer-term structural changes in those countries.

He looked forward to the Board discussions on selected staff studies, Mr. Othman concluded, and was pleased to note that papers on market-oriented reform in planned economies, and on Islamic fiscal policy and some aspect of economic policy in Islamic countries would be available for circulation later in 1989, or in early 1990.

Mr. Ghasimi made the following statement:

We can go along with the provisional agenda for the Thirty-Third Meeting of the Interim Committee and have an open mind with regard to the emphasis to be given to individual items.

On work priorities after the Annual Meetings, as my chair has indicated during previous discussions, it is indeed helpful to have such a general overview of priorities well ahead of time. We can give our support in principle to the proposals made in the Managing Director's statement.

On the Ninth General Review of Quotas, we sincerely hope that the remaining issues will be resolved as soon as possible and that the Board will be in a position to finalize its work on time. It can hardly be denied that effective debt reduction will certainly call for additional funding over and above the resources available at present--including the World Bank's General Capital Increase, approved already. It is therefore important to give the envisaged quota increase a high priority, so that the Fund's role and involvement in debt reduction can be enhanced effectively.

We welcome the emphasis that will continue to be put in the world economic outlook exercise on medium-term scenarios. Specific attention to longer-term structural changes in the major industrial countries will definitely be useful.

Recent discussions and negotiations by creditors, debtors, and international institutions, particularly the World Bank and the Fund, have certainly gone a long way toward clarifying many of the important issues involved in debt reduction. Although several of the elements of a debt-reduction strategy have by now been clarified, a consensus has not yet been reached on some of the important issues. In these circumstances, we welcome further work by the Fund in this important field. Special attention needs to be devoted to a number of heavily indebted countries that, because of their special economic situations and the structure of their debts, have not been eligible to make use of the existing debt-reduction framework.

On the question of overdue financial obligations to the Fund, my chair has reiterated on several occasions its deepest concern about the accumulation of arrears to the Fund, and has given its support to the evolving collaborative approach. We hope that the need for remedial action will remain limited, and we would like to emphasize that it is unfortunate that such actions are envisaged by the Fund. We continue to prefer the preventive and the collaborative approaches. These approaches, combined with firm commitment to deep adjustment policies by countries in arrears, and supported by proper financial assistance, will be cardinal elements to any feasible solutions. We therefore look forward to a review of the collaborative approach in early 1990.

On trade issues and the progress reports on the Uruguay Round and different aspects of the Fund/GATT relationship, the Fund should not wait for the Development Committee's guidance before undertaking further work. Further reviews of structural adjustment in industrial countries, with special attention to the impact of reduction and gradual elimination of trade barriers in those countries, could be extremely important and useful topics among the selected staff studies.

All of the selected staff studies specified in the Managing Director's statement are indeed important, and we look forward to reviewing them. We particularly welcome research in the area of program design and hope that it will be discussed as a Board paper instead of as a working paper. We also look forward to reviewing the study on public finance in Islam, and the paper on some aspects in economic policies in Islamic societies.

We hope that the forthcoming work program will be manageable for the Board, management, and the staff, and that it will be compatible with the Board's desire to avoid the bunching of discussions in the period preceding the spring ministerial meetings.

Mr. Prader made the following statement:

My chair can accept the proposed agenda for the Interim Committee as it stands, but could also go along with the constructive proposals made by Mr. Warner.

We also concur with the work priorities set forth in the Managing Director's opening statement, particularly with the emphasis on the completion of the Ninth Quota Review within the deadline of the agreed timetable. The quota increase should indeed be our first work priority, not only because so little time is left before the November 15, 1989 deadline--and too much time has already been spent on redundant and circular discussions--but also in view of the important decisions that have been made on the Fund's involvement in the debt strategy.

The implementation of these decisions on the debt strategy, especially those concerning officially supported debt-reduction operations, should indeed be the focus of a thorough review of the Fund's experience with these policies, as the Managing Director suggests. Existing circumstances seem to indicate that there will be a second wave of large increases in the Fund's provision of credit--similar to those experienced during the 1982-83 surge--whose implications call for careful study and reflection.

We also consider discussion on market-oriented reform in planned economies to be very urgent. A broader, more systematic discussion of this issue than is provided by the format of the regular Article IV consultations--or ad hoc discussions in the context of individual Fund-supported programs--is long overdue. The need for such a systematic discussion is underlined by the dramatic economic and political changes that have occurred in some of these countries. Moreover, recent political announcements and international initiatives concerning the role of the Fund--which explicitly committed, ex ante, the use of Fund resources in support of the transformation of some of these economies--indicate that we urgently need to have a clear idea of the fundamental problems, opportunities, and obstacles in the reform of planned economies.

An interesting issue that comes to mind in regard to the coming review of conditionality are the exchange rate recommendations of the Fund. On several occasions, Mr. Goos has raised the question of whether the Fund should recommend stable versus flexible exchange rates, an issue that merits a more systematic examination.

On the idea of an in-house unit for post hoc evaluation of Fund programs, I will reserve my position until the possibilities of establishing such a unit have been studied, based on the

experiences of other organizations. Not all of the results obtained by such units seem to point in a positive direction. In particular, we should be aware of the possible political implications of implementing this idea.

On the priority to be assigned to the SDR, I should simply like to say that I do not share the views of those Directors who would downgrade the envisaged discussion on the SDR.

Mr. Dai remarked that the provisional agenda for the Interim Committee was basically a conventional one, covering all the major items confronting the Fund. However, it included a greater number of agenda items than in the past and appeared to be slightly too ambitious. It was therefore important--and was to be hoped--that the Committee meeting be organized in a more efficient manner.

Some annotations to the agenda were needed to clarify the main point on which Ministers were required to focus on in their statements, Mr. Dai suggested. For instance, on Item 4, the debt strategy, extensive discussions had been held on the basis of Mr. Brady's initiative during the spring meeting of the Committee, and a debt-reduction scheme had been formulated under the guidelines given by the Governors at that time. A few countries had currently entered into Fund-supported programs under the new scheme, or were in the process of negotiation under the new guidelines. Experience with the new scheme was limited thus far, and he therefore wondered about which aspects the Ministers should focus upon in the discussions at the coming Interim Committee meeting. Clarification would help the Governors to prepare their statements.

Similarly, it was not clear what Governors should focus upon in dealing with the Ninth General Review of Quotas, given that no substantive progress had been made since the past Annual Meetings, Mr. Dai considered. It was hard for the Fund to take a forward step in the absence of major shareholders taking a firm position before the Annual Meetings; otherwise, discussions on the topic would simply be a repetition of what had been said during the spring meeting.

Moreover, since the main guidelines on overdue financial obligations had been discussed already at the spring meeting, would the coming discussion consist of another review similar to what had been held in the Board every six months, Mr. Dai inquired. Or, would the Governors be required to express their positions on some of the new remedial actions proposed during Board discussions?

The agenda item on the international monetary system and the role of the Fund seemed to be too broad in scope, and objectives in that regard should be identified so that the Governors could focus on specific issues, Mr. Dai stated. He had no major problems with the work priorities suggested by the Managing Director for the period after the Annual Meetings.

Mr. Yoshikuni made the following statement:

We are in general agreement with the proposed Interim Committee agenda, as well as with the Managing Director's statement on work priorities.

We attach great importance to the role of the Interim Committee in facilitating the completion of the Ninth General Review of Quotas. The Board of Governors requested the Board to complete its work on the Ninth Quota Review with a view to a decision by the Board of Governors before end-1989. To keep to this schedule, the Board must have guidance from Ministers on the major issues of the Ninth Quota Review, including the size and distribution of the quota increase. Therefore, it would not be an exaggeration to say that the completion of the Ninth Quota Review depends solely on the Interim Committee. We would therefore like to request that the quota review be assigned enough time on the agenda, so that the Ministers can reach complete agreement on the major issues involved. In this vein, like Mr. Grosche, we wonder whether Item 8 of the agenda on the future work of the Board, particularly item 8(b) on the role of the Fund in the system, is a useful subject for renewed discussion by the Ministers, given the time constraints of the Interim Committee.

Regarding the work priorities after the Annual Meetings, we basically support the Managing Director's views. On the Ninth Quota Review, we strongly support his view that the Board should finalize its work so that the relevant resolutions can be submitted to the Board of Governors by November 15, 1989. It should be emphasized that the Board will have to proceed with its work expeditiously after the Annual Meetings in order to keep to this timetable.

We have no difficulties with the Managing Director's suggestions on the world economic outlook. However, we would like the staff to pay due attention in its analysis of long-term structural changes to the fact that the fiscal and budgetary systems of member countries vary significantly. The staff should avoid making mechanical comparisons between member countries without paying due attention to the particular circumstances of the countries concerned.

On the implementation of the debt strategy, we believe that the Fund will continue to play a central role and that the Board should continue to assume appropriate responsibility for the smooth and effective implementation of the strengthened debt strategy.

As for the international monetary system, given the heavy schedule in the period ahead, we would prefer to see the limited staff resources devoted to other areas, where immediate results can be envisaged. We do not see much urgency on this issue at this stage.

We would like to suggest that the focus of the conditional-ity review be on measures to repatriate flight capital and to attract direct investment.

With regard to the compensatory and contingency financing facility, like other Directors, we would like the staff to analyze the reasons for the limited use of the contingency financing element of the facility and to propose modifications to the facility as necessary.

On previous occasions, this chair has expressed some dissatisfaction with programs supported by the structural adjustment and enhanced structural adjustment facilities as well as with those programs' scope for attaining external viability. We would like to urge the staff to explore means of strengthening those programs and to improve their scope for the attainment of external viability.

We attach importance to a review of the 1977 document on surveillance, but do not believe there has been sufficient experience to warrant revision of the document at this stage.

Mr. Posthumus remarked that the current discussion on work priorities was obviously preliminary, because a formal discussion on the work program would take place after the Annual Meetings. He had intended to make some comments on the paper warranting approval or nonapproval under Article VIII of restrictions giving rise to payments arrears, but would simply note that his views were the same as Mrs. Filardo's. On the bicyclic consultation procedure and the follow up to the work of the Joint Committee on Compensation, his views were the same as Mr. Cassell's and Mr. Grosche's. Regarding administrative matters, the recent estate tax legislation in the United States warranted some discussion in the near future.

The review of the compensatory and contingency financing facility should be a substantive one, and should involve more than simply a softening of some of the various safeguards to the facility, Mr. Posthumus recommended. In particular, the relationship between the contingency element of the facility and underlying programs should be strengthened.

The Board had held a number of discussions on the international monetary system, and had encountered difficulty in delineating the appropriate path for future work, Mr. Posthumus noted. Directors would likely agree that the Board's goal was not the creation of an alternative system,

but, as specified by the Interim Committee, the continued review of the workings of the system. Several speakers in the current discussion had specified what the Fund should not do in the area of the international monetary system; it was indeed difficult to indicate what the Fund should in fact do. At the current stage, he would simply indicate that the significant phenomenon of the past few years of substantial international capital flows was dictated in part by interest rate differentials and exchange rate expectations. The relevant question in that regard was whether (speculative) capital flows could be disaggregated statistically from the important underlying financing flows. In some cases, countries with current account surpluses were faced with perverse capital inflows. More specifically, the interest receipts accompanying current account surpluses further reinforced those surpluses and led, mainly, to internal monetary expansion, higher interest rates, and consequent inflows of capital. That phenomenon might have consequences for the stability of exchange rates. In some other cases, countries with current account deficits followed restrictive monetary policies, entailing high interest rates as well as inflows of the interest sensitive capital resulting in an appreciation of their currencies. In a number of cases, currency appreciations uncalled for on the basis of economic fundamentals had occurred. Those phenomena were highly practical ones, leading directly to issues involving monetary policy instruments. Therefore, they should be discussed further by the Fund.

Another issue relating to the international monetary system was the question of the appropriate orientation of fiscal policy, Mr. Posthumus added. While many observers considered that fiscal policy should have a long-term orientation, such an orientation would obviously not always be conducive to stable exchange rates in the short term. The relevant question was whether there was a possible compromise position between the fine-tuning era of the 1970s and the need for long-term oriented fiscal policies. Several of those issues arose in the framework of cooperation in either the European Monetary System or the Group of Seven. In a world that was moving toward more interest and exchange rate stability, those issues were of general interest and merited discussion by the Board.

The Chairman commented that the question of international capital flows was indeed of growing concern. The Fund's work on the world current account discrepancy needed to be followed up by work on capital flows. While international capital flows were not an easy matter to study, the increasing importance that such questions were assuming in the world economic outlook and for the membership in terms of the policy coordination process called for further efforts by the Fund. Moreover, the Fund was in the best position of any international organization to contribute to a better understanding of the matter. More detailed suggestions for a study on international capital flows could be made, perhaps by October 1989.

Mr. Grosche said that he was grateful to Mr. Posthumus for having drawn Directors' attention to the recent changes in U.S. law concerning estate taxation in cases where the property of a deceased resident passed

to a surviving spouse who was not a U.S. citizen. The new law introduced a discriminatory treatment of non-U.S. citizens. He understood that the Administration Department was in contact with the U.S. authorities about the matter. If that serious inequality in the treatment of U.S. and non-U.S. employees of the Fund was not corrected, it might be necessary to consider making available to non-U.S. staff a tax reimbursement of the kind currently provided to U.S. citizens to compensate them for the income tax levied by the United States on Fund salaries.

Mr. Prader stated that he supported Mr. Posthumus and Mr. Grosche's view on U.S. estate tax legislation. He believed that the matter was of concern to most other Directors as well.

Mr. Warner remarked that he wished to assure the Board that the matter had been followed up in the appropriate places in the U.S. Government, and that it had been under review since that time by his authorities. He would remain in close touch with Directors who had expressed an interest in the question, and was having a continuing dialogue with the Administration Department in that regard.

The Chairman commented that he was grateful for Mr. Warner's personal intervention in the matter and his assurance that it was under active review.

Mrs. Ploix, noting that she agreed substantially with the provisional agenda for the Interim Committee, said that a good grouping of agenda items would enable the discussion to be more efficient. The item on the orientation for the future work of the Executive Board on SDR allocations, and on the international monetary system and the role of the Fund, was an invaluable one that merited consideration by Ministers. Furthermore, as the Chairman had noted, the policy aspect of the strengthened debt strategy had been dealt with at length during the spring 1989 meeting of the Interim Committee, and could therefore be dealt with more briefly at the Annual Meetings.

Regarding work priorities after the 1989 Annual Meetings, she would stress the importance of completing the Ninth Quota Review on time and-- importantly--with a consensus, Mrs. Ploix commented. The issue merited as much consideration as necessary to reach a consensus. She agreed that the Fund should pay close attention to the heavily indebted countries that were eligible neither for the Toronto rescheduling terms nor the Brady initiative. She strongly supported the coming review of the compensatory and contingency financing facility, and, like Mr. Posthumus, considered that the review should focus on why the compensatory element of the facility had worked well, but not the contingency element. Like Mr. Prader, she did not support the view of those who wished to downgrade the importance of the study on the SDR.

The question of estate tax legislation in the United States should be part of the study on expatriate benefits, Mrs. Ploix suggested.

Mr. Fogelholm indicated that he had no major problems with the provisional agenda for the Interim Committee. He had listened with interest to the comments of Mr. Kafka on the Committee's discussion of the world economic outlook, and agreed completely with Mr. Warner that the most important part of the discussion should perhaps be the topic of international policy coordination. To draw a distinction between the Interim Committee meeting and the Annual Meetings as such, the former should concentrate on policy coordination given that all Ministers would be present on only that occasion, and given the more general nature of the statements delivered at the Annual Meetings.

He could largely agree with the suggested work priorities, Mr. Fogelholm continued. His chair looked forward to the review of surveillance, which would allow Directors to take stock of and evaluate the Fund's country work. The bicyclic consultation procedure would also come under that review. His chair believed that continued review of the international monetary system was a central task of the Fund, and he could in that regard associate himself with the comments of Mr. Posthumus and Mr. Kwon on how to approach that review in a practical manner. Furthermore, he agreed with Mr. Fernando that the Board had previously decided to take up the review of the structural adjustment and enhanced structural adjustment facilities in the second quarter of 1990, and not the first.

He supported Mr. Massé's view of the importance of the Fund being able to attract and recruit the most competent staff possible, and all of the consequences that would result thereby, Mr. Fogelholm added. When considering the question of expatriate benefits, the Fund should not only consider the tax situation, but also the restrictions being imposed by the U.S. authorities on the spouses and children of staff members in terms of work and other matters--which would also affect the attractiveness of the Fund as a working place.

The Chairman remarked that he agreed entirely with Mr. Fogelholm.

Mr. El Kogali observed that the provisional agenda for the Interim Committee dealt with the debt strategy and overdue financial obligations to the Fund on a completely separate basis. His chair had argued that overdue obligations were but one aspect of the general debt problem, and that it would therefore be consistent to consider the problem of overdues as a subitem to the debt strategy.

Regarding work priorities after the 1989 Annual Meetings, the Managing Director had suggested in his opening statement that implementation of the collaborative approach "may" need to be reviewed in early 1990, Mr. El Kogali noted. His chair believed that the Board should currently agree to review the collaborative strategy because it was the centerpiece of the Fund's effort to resolve the problem of overdue obligations. As the Board had been relatively quick in deciding on the possible use of

remedial measures, an early review of the collaborative strategy should highlight the strategy's strengths as well as areas in which improvements were needed. He hoped that remedial actions would in fact be remedial and helpful toward solving the problem.

Continuous review of conditionality was important, Mr. El Kogali stated. A number of issues had been raised during the past review; the most important requirement for the review was not to do away with conditionality, but to establish procedures that were pragmatic in the light of changing circumstances in member countries.

He welcomed the ongoing research in the area of program design, which was a particularly relevant aspect of the Fund's work, Mr. El Kogali said. Although working papers were a useful means of disseminating information, it was important that the staff's research findings on the key topic of program design be brought before the Board for discussion, to enable Directors to reassess their views on the design of adjustment programs and for them to give guidance to the staff accordingly. The papers on Islamic fiscal policy and market-oriented reform in planned economies should be interesting, and his chair was looking forward to receiving them.

Mr. Santos remarked that he could support the provisional agenda for the Interim Committee, particularly the item on the orientation for the future work of the Executive Board on SDR allocations and on the international monetary system and the role of the Fund. As some Directors did not seem to be enamored with those questions, guidance by the Interim Committee would be most welcome. He supported the point made in the Managing Director's opening statement that the Fund would focus on debtor countries that were neither eligible for the Toronto rescheduling terms nor likely to benefit from the Brady initiative, Mr. Santos continued. He supported the suggestion by Mr. Lombardo that the paper on those countries be brought forward for Board discussion in the last quarter of 1989. Indeed, the informal session on country matters preceding the current Board discussion had demonstrated that adjustment efforts in Africa were being hampered substantially by countries' ineligibility under the Brady initiative. The Board would have to discuss what the Fund's role could be in dealing with those countries.

He supported the views of a number of Directors who had favored the creation of an independent unit within the Fund to evaluate Fund programs and the effectiveness of conditionality, Mr. Santos added.

The Secretary said that he would limit his responses to the work priorities after the 1989 Annual Meetings.

The date by which the relevant resolutions and related material on the Ninth General Review of Quotas should be submitted to Governors for subsequent voting was November 15, 1989, the Secretary confirmed.

There had been no intention to create a third category of member countries in terms of their treatment under the debt strategy, the Secretary observed. Rather, the Fund would follow closely the problems of a number of members that risked not benefiting from the strategy.

The staff wished to have guidance and input from the Board on the appropriate focus for the next review of conditionality, the Secretary indicated, and the suggestions made during the current discussion would certainly be taken into account. Detailed further guidance might be needed during the discussion on the work program in October.

The review of the structural adjustment and enhanced structural adjustment facilities would have to take place by mid-1990, the Secretary observed. As the Fund gained experience with those facilities, operational issues would arise on which the staff might need guidance. It would therefore be useful if the paper could be submitted in good time to elicit further guidance from the Board, as necessary.

Every effort would be made to advance work on various administrative matters, as listed in the Managing Director's opening statement, the Secretary remarked. He had taken note of the suggestion that the review of the FY 1991 budget might be considered by the Board before end-1989, if feasible. Similar account had been taken of the comments that the Board would need time to consider fundamental questions regarding the Administrative Tribunal. The review under way of the Fund's external relations activities had not been overlooked, but would find its place in the next statement of the Managing Director on the work program.

The Secretary's Department had been working on the issue of declassifying archives, the Secretary stated. Coincidentally, the Board would take a decision by noon of the current day--on a lapse of time basis--to respond favorably to the Bank of England's request to open its Fund-related archives. That request had stimulated his Department to examine the practices of member countries in opening their national archives. Such material was increasingly being made available, after a varying number of years. He hoped that it would be possible to submit proposals to the Board that would balance the need to maintain confidential relationships with member countries with the increasing interest in the disclosure of public information.

Mrs. Filardo inquired when the staff paper on the Fund's policy on exchange restrictions evidenced by external payments arrears would be issued for consideration by the Board.

The Secretary responded that the staff paper was being prepared, but that his understanding of the sense of the Board was that the timing of the discussion of the paper would depend on developments with respect to arrears, the possible use of Article VIII in that connection having been seen as a matter of last resort.

Mr. Fernando said that he wished to recall the reasons why the Board had believed that holding the review of the structural and enhanced structural adjustment facilities in the second quarter of 1990 would provide for a more effective discussion. First, holding the review in the first quarter would sandwich it in the busy period leading up to the spring meeting of the Interim Committee. Second, the review of Senegal's experience with the enhanced structural adjustment arrangement in March 1989 (EBM/89/37, 3/20/89) had been seriously constrained by the insufficient empirical evidence available to make the review. By postponing the review to June 1990, the Board could meet both of those problems.

The Secretary replied that there was no difference of view between Mr. Fernando and himself. The timing of the review of the structural adjustment and enhanced structural adjustment facilities should remain flexible, so that enough empirical evidence and experience could be gathered, and so that the review would come to the Board at a time when it could give the subject the attention it merited.

The Executive Board then agreed to take the following decision:

The Executive Board agrees to transmit the provisional agenda for the Thirty-Third Meeting of the Interim Committee set out in EBD/89/236 (7/25/89), as amended in the light of the discussion, to the Chairman of the Interim Committee.

Adopted August 18, 1989

2. EXECUTIVE DIRECTOR

The Chairman bade farewell to Mrs. Ploix upon the conclusion of her service as Executive Director.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/89/104 (8/14/89) and EBM/89/105 (8/18/89).

3. ARCHIVES POLICY - BANK OF ENGLAND

The Bank of England shall be informed, in response to its letter of January 11, 1989, that the Fund accedes to its request to follow the proposed 30-year procedure for opening the archives of the Bank of England, subject to the understandings contained in the letter. (EBD/89/237, 7/25/89)

Decision No. 9234-(89/105), adopted
August 15, 1989

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/89/201 (8/14/89).

APPROVED: March 30, 1990

LEO VAN HOUTVEN
Secretary