

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/138

10:00 a.m., October 30, 1989

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

Executive Directors

T. C. Dawson

E. T. El Kogali

E. V. Feldman

L. Filardo

R. Filosa

M. Finaish

M. Fogelholm

M. R. Ghasimi

G. Grosche

B. Jalan

A. Kafka

Mwakani Samba

G. A. Posthumus

K. Yamazaki

Alternate Executive Directors

C. Enoch

G. C. Noonan

D. Powell, Temporary

Zhang Z.

Yang J., Temporary

J. Prader

L. B. Monyake

S.-W. Kwon

M. Hepp

M. A. Fernández Ordóñez

M. B. Chatah, Temporary

O. Kabbaj

S. P. Shrestha, Temporary

L. E. N. Fernando

L. M. Piantini

J.-F. Cirelli

M. Al-Jasser

G. P. J. Hogeweg

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

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Also Present

Administration Department: G. Rea, Director; H. J. O. Struckmeyer, Deputy Director; D. S. Cutler, N. S. Jackson, L. A. Wolfe. African Department: M. Touré, Counsellor and Director; G. E. Gondwe, Deputy Director; C. Enweze, J. Kakoza. Asian Department: P. R. Narvekar, Director. European Department: M. Russo, Director; M. Guitián, Deputy Director. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; G. R. Kincaid. External Relations Department: A. F. Mohammed, Director. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel. Middle Eastern Department: A. S. Shaalan, Director; A. Tahari. Research Department: M. Goldstein, Deputy Director; B. B. Aghevli, G. Hacche, F. Larsen, D. Villanueva, P. Wickham. Secretary's Department: C. Brachet, Deputy Secretary; J. W. Lang, Jr., Deputy Secretary; G. Djeddaoui, R. S. Franklin. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, O. Roncesvalles, A. J. Tweedie. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Bureau of Statistics: J. B. McLenaghan, Director; M. S. Gill. Special Advisor to the Deputy Managing Director: W. A. Beveridge. Advisors to Executive Directors: N. Adachi, Z. Iqbal, P. Péterfalvy, A. Raza, B. Sarr, N. Toé. Assistants to Executive Directors: J. R. N. Almeida, B. A. Christiansen, A. Y. El Mahdi, S. K. Fayyad, J. Gold, S. Gurumurthi, A. Hashim, M. Hepp, J. Heywood, L. Hubloue, A. Iljas, M. E. F. Jones, L. I. Jácome, K.-H. Kleine, K. Kpetigo, J. A. K. Munthali, A. Rieffel, S. Rouai, C. Schioppa, M. J. Shaffrey, J. C. Westerweel.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Noonan, Alternate Executive Director, to the Executive Board.

2. REPORT BY MANAGING DIRECTOR

The Managing Director said that he had recently visited New York for consultations with the Secretary General of the United Nations, Mr. Pérez de Cuéllar, who had wished to discuss with him a paper on the debt strategy that the United Nations would soon publish. He had mentioned to Mr. Pérez de Cuéllar that the Executive Board shared the United Nations' concerns about the delays in the implementation of the strengthened debt strategy, particularly by commercial banks. At the same time, however, he had cautioned against the United Nations strongly recommending further refinements or additions to that strategy. Not all of the Secretary General's advisors were amenable to that view, but Mr. Pérez de Cuéllar had agreed with him that what currently mattered was the strong implementation of the existing strategy.

Subsequent to his discussions in New York, he had met French Prime Minister Rocard in Paris, to consult on international issues, domestic economic issues in France, and developments in Eastern Europe, which were much on the minds of European leaders, the Managing Director continued.

Proceeding to Rome, he had paid a courtesy call on the heads of UN food agencies, in view of his concern about frequent negative statements by high level officials or heads of UN agencies about structural adjustment programs supported by the World Bank and the Fund, the Managing Director remarked. He had wished to better inform those officials, to help them avoid misperceptions of the Fund's role, and to enable them to better appreciate that the Bretton Woods institutions were working with the same purpose as UN agencies, but with different responsibilities. He had met with Mr. Edouard Saouma, Director General of the Food and Agricultural Organization (FAO), the policymaking body of agricultural ministers, with Mr. Idriss Jazairy, President of the International Fund for Agricultural Development (IFAD); and with Mr. James Ingram, Director of the World Food Program (WFP). The latter two agencies had lending authority, and he had therefore discussed with their President and Director, respectively, how the Fund could cooperate with the agencies in assembling Funds for the most debt-distressed countries, and among those, the countries that were in arrears to the Fund but had Fund-monitored programs. In cases in which the agencies had programs with particular countries--some of them focusing on the important need to smooth the social costs of adjustment--it would be useful for the Fund and the food agencies' staffs to consult on those programs to see how they could integrate their efforts in financing difficult country cases.

While in Rome, he had delivered a speech on adjustment at a conference at the Pontifical Academy of Sciences, the Managing Director

continued. In that connection, Pope John Paul II had requested a meeting with him to discuss a variety of economic issues, particularly debt and the financing that could be expected from the international community for Poland. He had informed the Pope that the success or failure of the enormous adjustment problem in Poland would depend largely on the Polish people's efforts, irrespective of the financing outlook. The Pope had hoped that the international community could provide more financing than envisaged at present; indeed, he had been somewhat disappointed to hear how exceptionally difficult it was to design a workable program in Poland's case--owing to the three major problems of debt, inflation, and substantial institutional and structural rigidities. Nonetheless, he had mentioned to the Pope that the Church, with its enormous influence, could do much in helping to facilitate the difficult adjustment transition by fostering sustained popular support for the adjustment. The Pope had recognized that point, and had expressed an interest in being kept informed about developments with respect to Poland.

3. WORK PROGRAM

The Executive Directors considered the work program for the next several months, together with a tentative schedule of meetings for the same period (Secretary's Circular No. 89/142, 10/23/89).

The Managing Director made the following statement:

I would welcome receiving the views of Directors on our work program and priorities for the next few months. In the following paragraphs, I have been guided by the priorities set by the Interim Committee in its communiqué of September 25, 1989, by the views expressed by Governors on the tasks of the Fund in their addresses at the Annual Meeting, and by the Board's discussion on August 18, 1989 on work priorities after the Annual Meetings.

1. Ninth General Review of Quotas

The Interim Committee has requested the Board to pursue its work on the outstanding issues relating to the Ninth Review as a matter of highest priority, with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of 1989. It is thus essential that views soon converge on the size of the quota increase. I expect that we will then need three, or perhaps, four more Board meetings to complete work on the distribution of the increase in quotas, the matter of ad hoc increases, the determination of the period of consent, the preparation of the Board's report to the Board of Governors and the draft Resolution on increases in quotas. Earlier this month the staff circulated a paper on the illustrative distribution of an increase in quotas as well as supplementary papers (EB/CQuota/89/9, 10/6/89) to guide the Board's next

discussion. While there is some room for flexibility in setting the deadline for submission of the Board's report and the draft resolution to the Board of Governors, it would be only prudent to allow for a period of voting by Governors of at least five weeks, particularly since this would include the year-end holidays. Hence, the deadline should not go beyond November 25, 1989 if the Board of Governors is to complete the Ninth Review by the end of 1989.

2. World economic outlook, surveillance and international capital flows

In the spring 1990 world economic outlook papers, the staff will build on its usual presentation of short-term prospects and alternative medium-term scenarios for the world economy, by extending its analysis to better cover structural changes in the major countries, including those resulting from demographic changes. It will also be devoting particular attention to the estimation and evolution of potential output in the major countries. This effort to refine and strengthen its analysis is consistent with the encouragement given by the Interim Committee to continue facilitating the Fund's contribution to the process of international economic policy coordination. Board discussion of the world economic outlook papers could take place on a date in April to be agreed.

The Interim Committee also requested the Board to continue improving the analytical and empirical framework underlying surveillance, including the measurement, determinants, and systemic consequences of international capital flows. The staff will be preparing a paper on the biennial review of the implementation of surveillance and of the principles and procedures for surveillance. The deadline for completion of the review is April 1, 1990, but in view of the heavy work load that we will have around that time, I would suggest that we agree to complete the review in the period immediately following the spring meeting of the Interim Committee. In addition, I will propose the establishment of a Working Party of outside experts to undertake a study on international capital flows-- as a follow-up to the Report on the World Current Account Discrepancy--to focus on measurement aspects of international capital flows, including the causes of perceived discrepancies in global balance of payments data, the adequacy of existing statistical measurement techniques, and the special problems of unrecorded capital flows. A paper setting forth the objectives, modalities, and timetable for this study will be circulated to Directors shortly. Staff work on a related study dealing with the determinants and systemic consequences of capital flows is under way, and should be available for Board discussion in mid-1990. In addition, staff papers examining developments and

prospects in international capital markets and in the area of officially supported export credit will become available for discussion November 29, 1989.

3. Management of the debt situation

Note was taken by Governors of the progress made thus far in implementing the strengthened debt strategy under the operational guidelines established by the Board in support of debt and debt service reduction in the context of strong growth-oriented adjustment programs. It is important for the Fund to continue to develop such programs, and to support them with appropriate financing packages that are tailored to the circumstances of individual debtor countries, while ensuring that financial support is not diverted from countries that, notwithstanding heavy debt burdens, have been able to preserve access to international financial markets through sound economic policies. Also, we will need to 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 summit rescheduling terms of official creditors nor likely to benefit substantially from the Brady initiative.

A paper reviewing progress in implementing the strengthened debt strategy is planned for Board discussion in March 1990. The paper will include an assessment of the debt situation and an analysis of experience under the guidelines on the Fund's involvement in the debt strategy, including those on financing assurances. A separate paper is in preparation for an earlier Board discussion that will examine the introduction of a provision on early repurchases in connection with members' purchases derived from set-asides in arrangements. Also being prepared for discussion in March 1990 is a comprehensive review of recent experience with multilateral official debt rescheduling. Other analytical work on debt--including that on the relationship between domestic and external debt, and on the cost of interest guarantees--will be circulated in due course.

4. The international monetary system and the SDR

The Interim Committee wishes the Fund to continue its analysis of developments in the international monetary system, with a view to identifying means of improving the system. In that context, the Board's regular informal sessions on exchange rate developments have been particularly useful and should be continued; I propose that the Board's next session take place on November 20, 1989. I also propose that we schedule for February 1990 a Board seminar on major issues in the evolving international monetary system. The staff could prepare a paper for this seminar that would address, inter alia, the orientation

and international coordination of monetary policy, the management of exchange rates in different country circumstances, and the implications of increased capital market integration for the conduct of macroeconomic policies and the financing of external imbalances. Research into the operation of foreign exchange markets, the use of vehicle currencies, the measurement of international liquidity, and the role of the SDR are continuing, and papers on these matters will be circulated to the Board mainly in the working paper series. Also, as requested by the Interim Committee, I shall conduct consultations, as appropriate, to assess the extent of support for an allocation of SDRs.

Following the spring 1990 Interim Committee meetings, we plan to issue three papers on the SDR, including on the quinquennial review of the valuation of the SDR and SDR interest rate--which is to be completed by end-1990--the role of the SDR in the diversification of foreign exchange reserves, and the use of the SDR in reserve management in the major industrial countries. It is expected that these could be considered in the period before the 1990 Annual Meetings.

5. Policies on access to and use of Fund resources and the Fund's liquidity position

Before the end of 1989, the Board must give effect to the agreement in the Interim Committee that the enlarged access policy and the current access limits under the policy should be maintained for 1990. Also, before the end of 1989, the Board needs to complete the annual review of the limits on access under the buffer stock financing facility. As on previous occasions, the papers and draft decisions on these matters may be circulated for approval on a lapse of time basis. Moreover, it is agreed that the enlarged access policy should be reviewed in light of the outcome of the Ninth General Review of Quotas.

In order to review the operation of the structural adjustment and enhanced structural adjustment facilities, the staff will prepare papers addressing operational issues relating to those facilities, including the availability of resources, the eligibility criteria, access limits, conditionality and monitoring, and issues relating to cooperation among the Fund, the Bank, and the donor community. The deadline for this review and the review of the ESAF Trust is end-June 1990; however, I believe that we should complete this review in preparation of the spring 1990 meeting of the Interim Committee.

A paper proposing modifications to the compensatory and contingency financing facility (CCFF) to make it a more effective instrument will serve as the basis for a review of experience with the facility. I suggest that we add this paper,

together with a paper reviewing the cereal imports component of the compensatory and contingency financing facility, to our agenda of November 20, 1989 in order to fulfill the requirement that we complete these reviews before December 1, 1989.

In response to the request of the Interim Committee, the staff will prepare a paper for Board discussion in early 1990 on the question of prolonged use of Fund resources and will examine actions that could be considered to safeguard the revolving character of Fund resources.

During the August 18, 1989 discussion on work priorities, (EBM/89/105), Directors made invaluable suggestions on the nature and scope of the next conditionality review, which is to take place in the second half of 1990. A number of Directors took that opportunity to indicate or reiterate their support for the establishment of an independent evaluation unit. I maintain an open mind on this issue; it should be clear, however, that we need to proceed in a prudent and deliberate manner. It should be agreed that the basic purpose of any changes in Fund work procedures must be to strengthen our internal review processes. Whether, and to what extent, this would call for changes in organizational arrangements is a matter that would need to be thought through carefully. There is no clear-cut model available in other institutions for the Fund to mirror. Moreover, the Executive Board is, and should remain, the final arbiter of the adequacy and quality of adjustment programs.

A paper on the policy orientation and balance of payments assistance of multilateral and bilateral aid agencies will soon be circulated to the Board. The paper will report on the policy orientation of aid operations of major bilateral and multilateral agencies, aid agencies' contacts with the Fund staff and their involvement in the policy framework paper process. I propose that we discuss this paper on December 1, 1989.

It was agreed that an update of the Fund's liquidity position would be issued for the information of the Board after the 1989 Annual Meetings, and it is proposed to make the update available as background for the Board's further discussions necessary to complete the Ninth General Review of Quotas. A paper for the semiannual review of the Fund's liquidity position and financing needs will be issued in March 1990, for Board consideration before the spring meeting of the Interim Committee. The paper will include an annex on the methodology followed by the staff in connection with the liquidity exercise.

6. Overdue financial obligations

The Interim Committee has reiterated its strong support for the three-pronged cooperative approach in dealing with overdue

financial obligations to the Fund. It welcomed the significant reduction in the number of members in arrears, and the progress made by several members--in the context of support groups or otherwise--in embarking on policy reforms with a view to clearing their arrears to the Fund. Nevertheless, we all remain concerned about the problem of arrears, and must strive vigorously to resolve this problem. We will continue to urge all members in arrears to cooperate closely with the Fund, but, in the unfortunate event that a member continues to decline that opportunity, we will, as we have already done, adopt remedial measures.

The Interim Committee has asked the Board to submit a progress report on developments regarding overdue financial obligations for its consideration in the May 1990 meeting. A paper on this matter, including the next six-monthly report on arrears, will be scheduled for Board discussion in late March 1990. Reviews of individual cases of countries in arrears will be circulated as necessary.

7. Administrative matters

The Board will have a heavy schedule of administrative matters to discuss in the near future. A number of the issues are complex, sensitive, and interrelated, and how they are dealt with will have an impact on the working of the institution.

Having reached agreement on a new salary structure and on salary adjustments as of May 1, 1989, we must turn our attention to the quadrennial survey of benefits, the results of which should be ready for discussion by Directors in December 1989 or early January 1990. In that connection, a paper on the eligibility criteria for staff benefits is being readied for discussion by the Committee on Administrative Policies later this month. Expected to be available for discussion in December are the reviews of the Staff Retirement Plan--which I would propose to discuss in the Board on December 15, 1989--and the Medical Benefits Plan--which could be discussed by the Committee on Administrative Policies in the latter part of December. Also, a review of spouse and dependency allowances could be circulated for discussion in the Committee in January 1990. For more urgent consideration, a staff paper on safeguard proposals vis-à-vis gift and estate taxes is being prepared, and I would propose that it be scheduled for discussion on December 8, 1989.

In response to the Board's request for further examination of specific issues relating to the implementation of its decision in principle to establish an administrative tribunal, a paper on remaining issues will be circulated for discussion by the Board in early 1990. On other administrative matters, Directors will be receiving a paper on a flat rate salary system

for assistants to Directors, which could be taken up by the Committee on Executive Board Administrative Matters in mid-December 1989.

Documentation on the midyear review of fiscal year 1990 administrative and capital expenses and on the fiscal year 1991 budgetary outlook will become available in December 1989 or early January 1990, with a discussion on the 1991 outlook to take place later in January. The results of the 1990 staff compensation review should be ready for discussion in March 1990, in advance of the April 1990 consideration of the Administrative and Capital Budgets for fiscal year 1991.

8. Area departments' work program

The tentative timing of the work program relating to Article IV consultations and reviews under existing stand-by or extended arrangements is summarized in Attachments III and IV, respectively.

Area departments anticipate that, in the six months through April 1990, some 70 staff reports for consultations under Article IV--including those for eight interim consultations under the bicyclic procedure--will need to be considered by the Board. These numbers are similar to those presented in recent work programs.

Also, during the period to end April 1990, around 25 reviews under existing arrangements are expected to be brought to the Board's agenda. Area departments' projections further indicate that some 30 requests for use of Fund resources may be brought to the Board in the same period. Of these, about one half would be for stand-by or extended arrangements; the remainder would be mainly for arrangements under the structural adjustment and enhanced structural adjustment facilities.

In the recent Interim Committee discussions and during the Annual Meetings, a number of speakers referred to the important economic reforms currently under way in a number of centrally planned economies. Directors will recall that a paper dealing with policy issues in planned economies in the process of market-oriented reforms has been circulated recently. This paper (SM/89/202), together with reports on the reform process in Hungary, Poland, and China (SM/89/203, SM/89/204, and SM/89/205), will be discussed at a Board seminar tentatively scheduled for December 18, 1989. Looking ahead, I note that work on centrally planned economies will absorb a considerable amount of area department resources. Fund involvement with these member countries will entail direct operational work on requests for use of Fund resources and will require research--to

be conducted by both functional and area departments--to enhance our knowledge of the complex issues that arise in the context of the reform process.

9. Operational matters

The staffs of the Bank and the Fund have been requested by the Development Committee to prepare background papers, as appropriate, for its May 1990 meeting. The papers would cover enhancing the role of the private sector in development, the debt strategy and its impact on development prospects in all developing countries, and the long-term perspective of sub-Saharan Africa. Drafts of these papers will be circulated in March 1990 for discussion by the Committee of the Whole in April 1990.

We should also have in mind that the staff has been requested by the Development Committee to keep under study the impact of industrial countries' trade, agricultural, and industrial policies on developing countries and the implications of regional trading arrangements, as well as to evaluate the impact of debt relief measures taken in favor of severely indebted low-income countries. I am concerned about the burden that all this work will place on already strained staff resources, and I would welcome Directors' views in setting priorities among these tasks.

A midyear review of the Fund's income position is proposed to be held on December 13, 1989, and a paper will be issued to the Board around the third week of November for this purpose. The next annual review of the Fund's income position will be issued in early April 1990, in time for the Board's discussion on the Administrative Budget, with an update to be issued in late May or early June 1990.

A paper reviewing the burden sharing decision, which is in effect until the end of fiscal year 1990, will be issued toward the end of the current fiscal year for discussion prior to end-April 1990, to avoid issues of retroactivity in the adjustment of the rate of charge and remuneration. Additional papers on the review of the operation of the burden sharing decision may also need to be issued if the floor of the remuneration coefficient should be reached.

A paper on principles for calculating currency amounts under the operational budgets has been issued for the information of Directors. To be issued are the operational budgets and designation plans for the periods December 1989-February 1990 and March-May 1990, and two six-monthly reports on the interest rate and charges on the supplementary financing facility and the policy on enlarged access.

A paper reviewing recent operational experiences with regard to poverty issues will be circulated for information toward the end of 1989. Also, during the first quarter of 1990, the biennial review of Fund statistics will be available for the information of Directors.

Progress Reports on the Uruguay Round and a possible paper on Fund/GATT Collaboration will be made available as appropriate.

The ongoing work on Islamic economies includes papers on the conduct of financial policies and on approaches to poverty alleviation and income inequality.

A staff paper on the Fund's external relations activities will be circulated for Board consideration early in 1990.

The staff is continuing its research into the analytical and empirical issues in the design of Fund policy advice. That research includes work on exchange rate policy and exchange rate regimes. The studies will be circulated as they become available.

It was obvious, the Managing Director added, that the Board's highest priority in November would be reaching agreement on the Ninth General Review of Quotas, preferably by November 22, 1989. The Board could first take up the questions of the period of consent and the participation requirement.

Mrs. Filardo said that she would be very candid in the current discussion, her third opportunity to participate in a discussion on the work program. In previous work program discussions, she had requested strongly that certain topics be added to the Board's proposed agenda, but had noted that, despite a consensus in the Board in favor of their discussion, they had disappeared from that agenda without explanation. As a consequence, she could literally repeat her previous statements on the work program. Nonetheless, three topics were of special interest to her authorities: the question of program design, which had been on the agenda a year previously; Fund policy on exchange restrictions evidenced by external payments arrears, which had been in the work program agenda of August 18, 1989 (EBM/89/105 and EBM/89/106); and a paper on the current system of burden sharing, supposed to be discussed after the Annual Meetings. Not only had those matters not been discussed, but they also did not even appear in the current statement of the Managing Director on the work program. Her authorities had instructed her to find out when those items would be discussed, or whether there were special reasons for not discussing them.

The current work program had been guided by the discussions at the recent Interim Committee meeting, by Governors' interventions at the

Annual Meetings, and by the Board discussion on work priorities for the period after those meetings (EBM/89/105 and EBM/89/106, 8/18/89), Mrs. Filardo noted. The Managing Director's opening statement covered various standard topics relating to Interim Committee matters, those concerning area departments, and administrative matters, all of which her authorities basically endorsed.

The Managing Director had mentioned that the deadline for the Board to reach agreement on the Ninth Quota Review should not go beyond November 22, 1989, and that three or four further Board meetings would be required to complete the work necessary, Mrs. Filardo observed. Her authorities were open to the Managing Director's suggestions, but believed, nevertheless, that the United States would first have to disclose its position on the Ninth Quota Review before the Board could arrive at a decision. Failing that it would be difficult for the Board to complete its work, given the necessity of knowing the size of the Fund before deciding on further questions relating to the Ninth Quota Review.

Regarding the world economic outlook, the Research Department had begun to investigate the question of the debt overhang in highly indebted countries in the spring of 1989, Mrs. Filardo stated. At the spring 1989 discussion on the world economic outlook (EBM/89/53, 5/12/89), it had been concluded that research on the subject was at a preliminary stage and that much remained to be done. The Research Department should continue its work on the debt overhang, although she was unsure whether it should do so as a part of the world economic outlook itself or separately. In her authorities' view, the work on the debt overhang was one of the bases for program design, and they believed that a clear definition of that overhang and how to solve it was a cornerstone of the effort to determine whether a country needed debt and debt service reduction.

While the Interim Committee's request that the Fund continue to improve the analytical and empirical framework underlying surveillance--including the measurement, determinants, and systemic consequences of international capital flows--raised a fundamental issue that required surveillance by the Fund, she believed that it was the political will, mainly of industrial countries' authorities, that was of crucial importance to supporting an adequate system of surveillance, Mrs. Filardo went on. The biennial review of the implementation of surveillance would likely be a good opportunity for assessing the best means of meeting the Interim Committee's request.

It was premature to reach conclusions about the progress of the Brady initiative, but it was clear that the negotiations of countries with commercial banks had been much more protracted and complex than expected, Mrs. Filardo pointed out. Commercial banks were reluctant to participate in financing packages just for the sake of participation, and all of the negotiations were painful and prolonged, requiring the authorities of various industrial countries to intervene to keep them going. Banks had their own priorities according to their own interests, which made negotiations with some countries more protracted than with others. It was

therefore urgent that the Fund adopted a clearer position regarding its policy on financing assurances and on the accumulation of arrears in cases when commercial banks were not ready to participate in a financing package in a timely manner. It was also crucial for the Fund to define whether, in the future, it would be possible to make the resources for set-asides and augmentations fungible. The envisaged discussion on the paper on early repurchases in connection with set-asides, mentioned by the Managing Director, would be a good opportunity for holding a full review of the Fund's guidelines on the debt strategy.

In considering the possible establishment of an independent evaluation unit, she agreed with the Managing Director that the Executive Board was, and should remain, the final arbiter of the adequacy and quality of adjustment programs, Mrs. Filardo stated. In her view, no Directors had questioned the Board's status in that regard. Establishing an independent unit would mean that the review of conditionality would be carried out by a different department than the Exchange and Trade Relations Department or the area departments, given that those departments' staff participated in country missions and provided specific program advice for implementation by specific countries. The review of conditionality could be carried out by the competent economists of the Research Department, perhaps in collaboration with the Fiscal Affairs and Central Banking Departments, which were departments that assessed different policy problems relating to program implementation. The central points were that there had to be a clear view of program design in relation to each country's circumstances, and that a Fund department should examine the quality of the programs concerned, and any failures and alternatives for enhancing those programs as necessary. The Fund should not be afraid of improving the quality of its programs, especially as it might receive various requests for the use of Fund resources from countries with centrally planned economies. As the Managing Director had indicated, Fund involvement with those countries would entail direct operational work, and would require research to enhance the institution's knowledge of reforms in their economies.

The topics concerning the international monetary system and the SDR were of crucial importance, and they required political will on the part of major industrial countries for them to be dealt with adequately, Mrs. Filardo commented. Otherwise, Directors would have the privilege of again considering invaluable but academic papers.

Mr. Grosche said that he could broadly endorse the Managing Director's statement on the work program. It was indeed the case that time was running out with respect to the Ninth General Review of Quotas. It would be highly desirable for the Board to start as soon as possible discussing the outstanding issues in respect of the quota review, for it to be able to keep the deadline set by the Interim Committee. The suggested deadline set by the Managing Director of November 22, 1989 was welcome. If that deadline was not met, Governors would have a hard time to conclude voting and to accomplish the tasks that had been set by the Interim Committee in its communiqué.

He welcomed the Managing Director's proposal to establish a working party of outside experts to undertake a study on international capital flows, although it seemed likely that the study would not be an easy one, Mr. Grosche continued. The difficulties that the experts would face in conducting that study would probably be greater than those that had emerged in the work for the report on the world current account discrepancy. Before establishing the new working party, it would seem appropriate and necessary to explore in some depth the best means for achieving reliable and helpful insight in the study. Also, the Fund should avoid any kind of duplication of the efforts of other institutions; in preparing the draft terms of reference, contacts with the OECD, academia, and others would prove to be most helpful.

He had no specific comments to make regarding debt, other than to wonder whether the Board needed to review recent experiences with multi-lateral official debt rescheduling, Mr. Grosche added. Considering the limited input that the Fund could provide on the latter question, the staff's analysis should be distributed for information only, or, if it seemed appropriate, on a lapse of time basis. More generally, as a matter of principle, the Board should try to deal with as many items as possible on a lapse of time basis. He welcomed the Managing Director's intention to have the SDR-related research papers circulated mainly as working papers, Mr. Grosche stated. Care should be taken, however, that the views adopted in those working papers--which would be accessible to outside observers--were not confused with official Fund positions on the issues involved.

With regard to the review of the ESAF Trust, Mr. Grosche remarked that he would be grateful for some clarification as to why the Board should complete that review before the spring 1990 meeting of the Interim Committee. Were there issues in that regard that Ministers would wish to take up in the Interim Committee meeting? Given the heavy work load in the spring, and since the deadline set for the review was end-June 1990, the Board should perhaps accelerate the review only if there were good reasons for doing so.

In respect of the compensatory and contingency financing facility, he had been afraid from the beginning that the Board was going to create a difficult to handle "monster," Mr. Grosche observed. Clearly, a simpler and more straightforward approach to external contingencies would be desirable. "Deregulation" seemed particularly appropriate in the case of the facility--amendment of regulations usually created even bigger "monsters" than before, which might prove to be difficult to handle, particularly if sensitive issues were to be reopened. It had only been after extremely difficult discussions that his authorities had been able to join in the consensus in favor of establishing the facility, and after they had received assurances about several critical features of the facility. Those features included, in particular, the assurance that the scope for the financing of interest rate contingencies would be limited, and that disbursement would normally be made only after a review by the Board. He was concerned that reopening those, and perhaps other, issues that had

been heavily stressed in the course of the discussion would cause serious difficulties for his authorities. Deregulation was the easiest means for dealing with the facility's complexities.

The idea of establishing an independent evaluation unit merited some examination, Mr. Grosche considered. He emphasized that such a unit would have to be staffed from within the Fund and that the evaluation function should not be preformed by outsiders. He wished to endorse fully the Managing Director's comments that "the Executive Board is, and should remain, the final arbiter of the adequacy and quality of adjustment programs."

In line with his earlier comments, he doubted that there was a need for the Board to discuss the paper on the policy orientation and balance of payments assistance of multilateral bilateral aid agencies, Mr. Grosche said. It should suffice to circulate the paper as background material, perhaps in connection with the review of the enhanced structural adjustment facility in 1990.

He had nothing to add to the Managing Director's statement in the area of overdue financial obligations, Mr. Grosche pointed out.

The Board indeed would have a heavy schedule of administrative matters to consider, Mr. Grosche noted. He agreed that, beside the urgent issue of creating safeguard provisions for affected staff in the context of the new U.S. estate tax provisions, the Staff Retirement Plan, the Medical Benefits Plan, and the benefits survey merited priority, Mr. Grosche stated. But, in taking up those issues first, the Board should not forget that one topic had been left pending from the overhaul of the salary system, namely, the question of establishing a standing Joint Committee on Compensation of Executive Directors.

He did not have much to say on the area departments' work program, Mr. Grosche stated. In anticipation of the discussion on the budget and given the heavy strain that the Board was placing on the staff, he would add that he considered country work to be the most important pillar of the organization. Nonetheless, some economizing on country work could be made, particularly in the background papers on recent economic developments. In many cases, a collection of tables of statistics should be sufficient in those papers, and the resulting savings in staff time could perhaps be put to better use if one or a few particularly urgent country problems were studied in greater detail in the papers, instead of having the staff largely repeat the data provided in the tables. That issue might be taken up when the Board discussed the outline of the budget for fiscal year 1991.

Regarding the priorities to be set among the various tasks that the staff had been asked to perform for the Development Committee, he shared the Managing Director's concern about the heavy work load of the staff, Mr. Grosche indicated. Accordingly, background papers should be provided for only those items listed in the first paragraph under the heading of

operational matters in the Managing Director's opening statement. He hastened to add that it was somewhat surprising that trade issues had been put under the heading of operational matters and Development Committee matters. The role of the Fund in opening markets, keeping protectionist tendencies at bay, and providing its input to the ongoing multilateral trade negotiations was of such importance that trade, as a matter of principle, should figure under policy issues. However, he did not see the need for a major Board discussion in the coming months on general trade issues.

He welcomed the fact that a paper on the Fund and poverty issues would be circulated for information only, Mr. Grosche added. While he found poverty and income distribution issues to be extremely important, the Fund could and should not expand its operations into those areas. The institution was already overstretched in taking up more and more issues that went beyond its true area of competence, namely, that of financial stability. He was convinced that in assisting countries to create stable currencies, sound public finances, and open economies, the Fund was providing the most important ingredients for stable growth and, in conjunction with better tax systems, for long lasting relief from poverty. In that context, he warmly welcomed the staff's continued research into the analytical and empirical issues in the design of Fund policy advice.

Mr. Enoch said that he had no problems with the suggestions contained in the Managing Director's opening statement in regard to the Ninth Review of Quotas. It would certainly be imprudent to suggest that the Board could complete its work on that topic with less than another three or four discussions. While he was flexible on the suggested procedures for those discussions, it did seem that the Board was not going to be able to make any substantive progress yet and that there was thus little purpose in embarking on those discussions until the largest "shareholder" had declared its position.

He agreed with most of what had been suggested under the heading on surveillance, Mr. Enoch commented. Analysis of demographic changes was clearly an important follow on to the discussions on changes in savings patterns, which had revealed much of interest in several recent Board discussions. Analysis of measures of potential output was also useful. In both of those areas, however, consideration needed to be given to how far any results obtained could be applied to the mainstream, operational side of the Fund's work. Resources were surely far too constrained to permit research work that could not be applied quickly. The Fund, of course, needed to continue to take into full account the work undertaken in other organizations; indeed, his chair had referred previously to the work on structural reforms by the OECD.

The proposed work on capital flows was clearly highly relevant, Mr. Enoch remarked. As suggested by the scheduling in the work program, it did seem that--unless it was to be purely theoretical--the staff's work for the study on the determinants and systemic consequences of capital

flows could anticipate the efforts of the working party in the area of the adequate measurement of such flows. Perhaps there was a case for some reordering of agenda items.

There was an important omission in the surveillance section of the work program, namely, the absence of any reference to a paper on the CFA franc zone, Mr. Enoch pointed out. Such a paper had been explicitly called for by Directors representing a majority in the Board in the recent discussion on Gabon (EBM/89/128, 9/15/89).

The Managing Director explained that his statement on the work program had been written before Directors had reiterated their interest in the CFA franc zone. A study on all relevant aspects of the issue would be prepared before the summer of 1990; as it progressed, Directors would be informed accordingly. It was important that all parties with access to the results of the study should keep them confidential.

Mr. Enoch continued that he had a few problems with the suggested work on the management of the debt situation. He agreed that the Fund needed to follow closely the problems faced by countries that were not likely to be eligible for the Toronto rescheduling terms or to benefit much from the Brady initiative. He regretted, however, that the comprehensive review of experience with multilateral official debt rescheduling was not to be discussed until March 1990.

The suggested work on the international monetary system and the SDR seemed to be largely appropriate as well, Mr. Enoch noted. He agreed with the suggestion that most of the papers in that area should be circulated to the Board as working papers. Again, emphasis had to be on what was or could be operational. Perhaps for the moment, that suggested that less emphasis should be placed on work relating to the SDR.

The section in the Managing Director's statement on access and use of Fund resources was extensive, and yet it still seemed to underplay the scale of the work before the Board in the area, Mr. Enoch observed. For instance, a brief paragraph suggested that a discussion be held on the compensatory and contingency financing facility on November 20, 1989, to meet the requirement that the review of that facility be completed by December 1, 1989. Directors would recall the many discussions that had been necessary to establish the compensatory and contingency financing facility in the first place. If the paper for the review was going to propose significant modifications to the facility, it would doubtless take a number of Board meetings to agree to them, and the December 1, 1989 deadline might have to be regarded with some degree of flexibility. Similarly, the discussion on access policy might also take some time, particularly if it became intertwined with the coming discussions on quotas. It was clear, in any event, that access limits, as well as the enlarged access policy, would have to be reviewed in the light of the Ninth Quota Review.

The Managing Director's statement noted that the next conditionality review was scheduled for the second half of 1990, Mr. Enoch said. Perhaps that date could be brought forward, if not before the next Interim Committee meeting, at least to the period immediately afterward. In the recent discussions on conditionality (EBM/89/76 and EBM/89/77, 6/19/89), there had been increasing calls for an independent evaluation unit. He understood the considerations underlying those calls; after all, independent evaluation units had made useful contributions both in the World Bank and in many aid agencies, including in the United Kingdom. He would therefore be interested in an examination of the possibility of establishing an independent evaluation unit in the Fund.

The review of the structural adjustment and enhanced structural adjustment facilities might also need to be brought forward, Mr. Enoch suggested. The Board needed to consider both the scale of access under the two facilities for countries recently in arrears, and also the possibility of using resources under the enhanced structural adjustment facility in connection with debt reduction operations.

In the context of the March 1990 review of the Fund's liquidity position, Mr. Enoch noted the proposal that an annex on the methodology followed by the staff be provided in its papers for that review. That was certainly welcome, and he trusted that the annex would make the methodology as transparent as possible. The Board would recall that, during one of the discussions on the work program in 1988, his chair had requested a methodological paper or booklet on the operations of the Treasurer's Department. While considerable interest in the idea was expressed in the Board at the time, he had not been aware of any progress on the matter. Perhaps the methodological annex on the Fund's liquidity position could be made part of that wider exercise.

Some Directors had requested quantitative work on the financial effect of expulsion or suspension of noncooperating members, Mr. Enoch recalled. He hoped that a paper on that subject would be submitted to the Board before too long.

The section on administrative matters in the Managing Director's statement was another one in which the future burden of work seemed to have been understated, Mr. Enoch considered. The Board's experience with the report of the Joint Committee on Compensation showed how long it could take to resolve many administrative issues. The eligibility criteria for staff benefits, the Staff Retirement Plan, and the Medical Benefits Plan could all take considerable time, both in the Committee on Administrative Policies and in the Board. It was not clear how Directors could be expected to take decisions on those subjects before they could see the results of the benefit survey. It was disturbing that those results would not be available until December or January. In that connection, there should have been some reference in the work program to the Bank/Fund paper on the comparisons and the demographics of the Bretton Woods institutions, as agreed by management at the time of the discussions of the Joint

Committee on Compensation earlier in 1989; the matter clearly needed to be considered by the Board well before the 1990 salary review.

Regarding the work of the area departments, he would repeat his chair's request for regional analyses, where they would add to understanding of individual economies, Mr. Enoch stated. In a recent Article IV consultation discussion (EBM/89/106, 9/18/89), the Managing Director's summing up had reflected the view that the Caribbean might be an appropriate area for that type of analysis.

He welcomed the prospective paper for early 1990 on the Fund's external relations activities, Mr. Enoch indicated. He would expect that the paper would cover a number of issues relating to publications, including the system of charges. He hoped also that the paper would consider the role of the Annual Meetings, which, to many observers, were the most public face of the institution. In particular, did those meetings have to be annual, where should they be held, and was there some means for the Fund and the Bank to charge nonofficial participants?

The work program before the Board indeed looked heavy, Mr. Enoch continued. It would be difficult to argue that none of those items could have been considered in the past month, when the Board had hardly been in session at all. Nonetheless, it was welcome that the current work program now covered, in some form, the period until April 1990. However, it might have been helpful if specific dates had been defined for more of the items. The lists on pages 15-20 of the attachment to the Managing Director's statement indicated how much of the scheduling had yet to be determined, and it was not clear what specific dates had not been given for the great majority of those items. After all, a "tentative" schedule was only a provisional list of agenda items, and it was not helpful to Directors if many of the items that they knew would be taken up did not even feature in the provisional list. In that context, it was perhaps worth mentioning that the Executive Directors of the World Bank had just completed a series of discussion on the problem of bunching of meetings, in response to a similar problem of periodic overloading that they had encountered. Those discussions had produced some useful ideas on how to cut the Bank Board's work load, and perhaps something similar could be tried in the Fund.

The extremely heavy agenda over the next few months would need to be cut down, Mr. Enoch considered. One suggestion that he could make was that nonoperational policy papers could be circulated more frequently as information only, or as background to some policy discussion. He therefore saw no need for a Board discussion, on November 17, 1989, on tax harmonization in the EC or on the international coordination of tax policies, however excellent the papers might be. Perhaps the Board should consider taking decisions on reviews of stand-by and extended arrangements on a lapse of time basis, as had become the practice for reviews of enhanced structural adjustment arrangements--unless nontechnical waivers were involved. And perhaps more countries should be encouraged to go on

the bicyclic consultation procedure. At the least, Article IV consultation discussions should be systematically pushed toward periods when the Board's work program was relatively light.

Mr. Prader made the following statement:

We have no difficulty accepting the work program and the suggested priorities.

Absolute priority should indeed be assigned to completing the Ninth Quota Review before the agreed deadline. It is clear that the major problems to be resolved in the quota review still lie ahead. Nevertheless, even in the face of time constraints, we should be cautious about not revising again the agreed period for completing the quota review. At the same time, emphasis on a timely conclusion of the discussion should not go as far as to compromise the appropriate size of the Fund, particularly as a very small quota increase would make it impossible for the Fund to meet its formidable objectives and tasks. If the chances for a significant quota increase turn out to be small, then the implications of an inadequate capital bases for the Fund ought to be discussed in the context of the debt strategy, in view of the possibility of its continuation given the prospective large gap in the Fund's financial commitment to the strategy.

The Managing Director's statement mentions a number of issues that will have to be resolved in the Ninth Quota Review; but, in the interest of ensuring effective progress, the question of the appropriate data to use should be added to the list. For some reason, it has been left unsettled, even though a clear majority in the Board seemed to have emerged in favor of using 1985 data.

In view of the work load associated with completing the Ninth Quota Review and several major critical country cases, we suggest postponing other less urgent items, such as the review of the compensatory and contingency financing facility, until after the quota discussions. The experience with the compensatory and contingency financing facility is obviously extremely limited, and any review at this time would end up in a mere reconfirmation of the existing facility. Another possibility for alleviating the work burden during the critical time of the quota discussions would be to postpone the discussion on tax harmonization in the EC and international coordination of tax policies. Further leeway for possible additional policy discussion could perhaps be gained by postponing some administrative topics.

In the context of the Board's deliberations on the management of the debt situation, the design of adjustment policies,

and the Ninth Quota Review, we attach great importance to the papers dealing with the policy issues involved in market-oriented reform in planned economies. In fact, it is striking to see how this issue, which could well be one of the major determinants of Fund activities and membership growth in the 1990s, has eluded the attention of those chairs that said they could not yet take positions on the Ninth Quota Review as long as there had been no satisfactory discussion on the role of the Fund in the 1990s. We are looking forward to the seminar on these economies in the process of transition, particularly because it comes at a crucial moment in history. As one eminent European statesman has put it, "history will judge us by whether we have taken the opportunities which emerge from these reforms for the whole of Europe." I would add that the implications will extend to the entire world.

The Fund has a central role to play in the process of transforming these economies and in exploiting this most historic postwar, foreign, and economic policy opportunity. The Fund carries a heavy burden of responsibility in this process; it ought therefore to be well prepared analytically and financially for dealing with these problems to enable it to live up to the challenge and not to frustrate the high expectations placed in it.

Since the coming paper seems to be the first systematic discussion in the Fund on reform in planned economies, and has already been delayed for quite some time, we should try to stick to the agreed date. One could even argue that the date scheduled for the discussion is a bit late.

The Chairman of the Interim Committee has made some extremely pertinent remarks on the Fund's mandate to manage the international monetary system. It is imperative that the Fund exercise this mandate by actually addressing the issues and tasks assigned to it by the Articles of Agreement. Otherwise, the Fund will lose this mandate to informal groupings outside the institution. We therefore support holding a seminar on major issues in the evolving monetary system, which could look into such topics as the implications of increased capital market integration for the conduct of macroeconomic policies, and the financing of external imbalances. Also, despite the apparent lack of practical interest in the question of the SDR, the Fund should keep the SDR alive by continuing research on this issue.

The Managing Director's statement makes explicit reference to the establishment of an independent evaluation unit. At this stage, we would tend to support the cautious approach of the Managing Director. Since the experience of other international financial institutions with evaluation units has not been unambiguous, the best means of addressing this problem would

seem to be to improve the existing internal review procedures through management and the Board, rather than letting an outside unit pass judgments on the Fund's adjustment programs. If established at all, such a unit should be inside the Fund.

Regarding the review of the procedures for surveillance, we could agree with the proposed timing. What the Fund perhaps needs in this area is an entirely new and bold approach, otherwise the results of the surveillance review will very much resemble those of previous reviews.

Mr. Cirelli said that he broadly concurred with the main topics in the suggested work program. The program for the coming months appeared to be substantial, and he wondered whether some items that were scheduled for discussion in March or April of 1990 could not be brought forward to February 1990, which, on first impression, would not be one of the busiest months in the program. In connection with the work load, he welcomed the efforts of the staff to submit Article IV consultation papers jointly with requests for reviews of Fund arrangements, when the opportunity arose.

He fully supported the high priority given to completing the Ninth Review of Quotas, as Directors would have to move rapidly in considering the matter in order to complete the review by the end of 1989, Mr. Cirelli continued. The credibility of the Fund was currently at stake. He endorsed the Managing Director's proposal to complete the Board's discussion on the matter by about November 22, 1989.

His chair had no difficulties with the Managing Director's comments on the world economic outlook, surveillance, and international capital flows, Mr. Cirelli stated. An extension of the Fund's traditional financial analysis of countries to better encompass structural changes in the major countries would be most useful. However, the Fund should avoid duplicating the work of the OECD in that area. He could support the proposal to complete the biennial review of the implementation of surveillance in the period following the spring 1990 Interim Committee meeting. However, he wondered whether the paper on the principles and procedures for surveillance were for the purpose of a customary review or intended to provide new proposals in the area. He supported the establishment of a working party of outside experts to focus on the measurement aspects of international capital flows.

He agreed with the Managing Director that the management of the debt situation would have to be followed closely, and concurred further that the Fund would have to consider the cases of the heavily indebted countries that were neither eligible for the Toronto rescheduling terms nor likely to benefit substantially from the Brady initiative, Mr. Cirelli indicated. Although the particular countries in question held primarily public debt, it was not clear what the Fund could do for those countries.

His authorities could not but emphasize the continuing role of the Fund in searching for means to improve the functioning of the international monetary system, Mr. Cirelli stressed. His chair therefore fully welcomed the possibility of the Board holding a seminar in February 1990 on major issues on the evolving international monetary system, a seminar that would have to avoid an overly theoretical approach. His chair would especially appreciate a discussion on pragmatic means for developing the role of the SDR in the system.

It was appropriate that the enlarged access policy be reviewed in the light of the outcome of the Ninth Quota Review, Mr. Cirelli remarked. Moreover, completing the review of the structural adjustment and enhanced structural adjustment facilities before the spring 1990 meeting of the Interim Committee would be preferable to holding the review after that meeting. In addition, he welcomed the prospect of a paper that would propose changes to the compensatory and contingency financing facility, given that the current format of the facility was far from adequate. Concerning the Fund's liquidity position, he wondered whether holding an annual review on that question would not be sufficient, provided that Directors were able to discuss the subject when needed. The discussion on the policy orientation and balance of payments assistance of multilateral and bilateral aid agencies was welcome.

His chair would pay all the attention necessary to the problem of overdue financial obligations to the Fund, and it was important that the Fund pursue its cooperative strategy with the utmost vigor, Mr. Cirelli stated. Notwithstanding the unanimous agreement on the cooperative approach reached at the 1988 Annual Meetings, he wondered whether the Board could discuss the implementation of that approach before the suggested date of March 1990, in view of the desirability of strengthening that approach.

While he regretted that important administrative matters had to be discussed at a time when the Board's schedule was heavy, his chair nonetheless still viewed the quadrennial survey of benefits as important, Mr. Cirelli continued.

His chair supported the study on the CFA franc zone, given the contribution that the paper could make to an overall survey of adjustment problems in sub-Saharan Africa, Mr. Cirelli stated. Indeed, it would be useful if the study could cover all of the tools that could be used in the economic and financial adjustment process within, as well as outside of, the franc zone countries.

The Managing Director replied that, to avoid the study becoming unmanageably large, he would prefer that the paper be limited to covering the existing arrangements in the CFA franc zone. It would be essential, however, that the findings of the study be compared with the experience of countries outside of the CFA franc zone. In view of France's particular responsibility in the CFA franc zone, the Fund would be in touch with the French authorities before finalizing the outline of the study.

Mr. Jalan said that he broadly agreed with the suggested work program. As pointed out in the Managing Director's opening statement, the Board's most important priority was reaching some kind of agreement on the Ninth Review of Quotas. His chair was prepared to meet as often as was necessary to reach an agreement. However, as countries' individual positions on the quota review were well known, the Board would have to find a mechanism for converting those individual views into a consensus. Owing to the limited amount of time for reaching a consensus, and to the keen political interest in the quota review in many capitals, perhaps holding informal and off the record Board discussions would facilitate a narrowing of differences. Indeed, that was particularly important in view of the wide gaps between the positions of various chairs on the size of the quota increase, ranging from no increase to a doubling in quotas, and in view of the wide range of views on the appropriate distribution of a quota increase.

He agreed entirely with the Managing Director that the Executive Board had to remain the final arbiter of adjustment programs, and with Mr. Grosche that an independent evaluation unit had to be an internal one, Mr. Jalan continued. He saw considerable merit in having an internal and independent evaluation unit patterned after the World Bank's Operations Evaluation Department, which was staffed by regular Bank personnel, independent of operational units, and reported directly to the Board of the Bank through the World Bank President. He was not suggesting that programs negotiated by area departments or the Exchange and Trade Relations Department should be evaluated by, for instance, the Fiscal Affairs or Research Departments. The evaluation unit should be separate from the operational activities of the Fund and be staffed by Fund personnel, who should be mobile between departments, as he understood was the case with the Bank's independent unit. He urged that an early decision be taken on establishing an independent evaluation unit and agreed with the thrust of the Managing Director and Mr. Grosche's point that no impression should be given that an outside agency was evaluating Fund-supported adjustment programs.

He favored the Research Department becoming more involved in policy issues relating to the whole question of program design, but not those issues pertaining to individual country programs, Mr. Jalan added. He had made several points in that regard in his statement for the past review of conditionality, including, in particular, on the question of the relationship between interest rates, exchange rates, and inflation in situations of high instability. Those questions had been discussed by the Board in the cases of Brazil and Argentina, and would be dealt with again in the case of Yugoslavia. How should one approach stabilization issues and adjustment problems in cases of inflation rates of up to 600-700 percent a year? What should the relationship be between nominal exchange rates, nominal interest rates, and inflation rates in situations of such high instability? That issue had arisen in the case of Argentina, which, to his understanding, had adopted a fixed exchange rate while attacking the problem of high inflation. Some countries, alternatively, had adopted a different approach of continually adjusting their exchange rates on

a daily basis, even if the underlying economic situation was highly unstable. It was perhaps the case that the Fund did not know enough in the area, and the Research Department could usefully investigate the questions involved.

His chair attached particular importance to the world economic outlook, and welcomed the Managing Director's suggestion to set up a working party of outside experts to undertake a study on international financial flows, Mr. Jalan remarked. As suggested earlier by his chair, the staff should consider whether it was feasible to include in future world economic outlook papers the problems of the least developed countries as a group.

He agreed with the priorities suggested by the Managing Director, and welcomed the recognition of the need to deal with the debt problems of countries that were neither eligible for the Toronto rescheduling terms nor the Brady initiative, Mr. Jalan commented.

The proposed discussion in late March 1990 on the six-monthly report on arrears to the Fund seemed reasonable, although that occasion might be a useful opportunity as well to discuss the experience with the intensified collaborative approach, Mr. Jalan indicated, particularly the procedural aspects of setting up support groups, whether the approach as a whole was functioning effectively, and what refinements to it were necessary. Sufficient experience would have been gained by that time to justify a more policy-oriented discussion on the collaborative approach.

He agreed with Mr. Grosche on the importance of the Fund's country work, and that some consideration should be given to streamlining background papers on recent economic developments, Mr. Jalan observed. While he also agreed with Mr. Grosche that the Fund was not the appropriate institution for researching poverty issues, the Fund, nonetheless, still had to remain highly conscious of the impact of its programs on distributional and poverty questions. The Fund's advice on specific policy issues did have distributional consequences; for instance, fiscal adjustment could be accomplished in part through either bread price increases or taxation of cars. Moreover, the acceptability and the success of Fund-supported adjustment programs depended on those programs being perceived as fair by different social classes. That point was extremely important to keep in mind, as the groups that would bear the burden of adjustment were the ones that would eventually benefit most from those programs. The Fund could not ignore, for example, the different distributional impact of restraining real or nominal wages from that of liberalizing, for instance, dividends.

The agenda on administrative matters in the work program was a heavy one, Mr. Jalan continued. The Administration Department had done much work in completing the review of salaries. However, he was concerned by the issues apparent in various reports on administrative matters, for example, the report of the Ombudsman, the report of the committee responsible for the job grading exercise, and the annual report of the Staff

Association. Those reports merited the consideration of management and the Board. The Fund could take pride in having fine technical staff and in its tradition of having one of the best atmospheres he had witnessed among international institutions, including the World Bank in many respects. It was essential that the institution's high morale and its cordial relations be preserved, particularly in view of the recent evidence that there might be a problem with staff morale. If surveys of staff morale were necessary, they ought to be carried out. It would be worthwhile for management to make every effort to deal with the questions involved.

The Managing Director noted that Mr. Grosche and Mr. Jalan had similar views in terms of having both recognized the importance of the distributional effects of Fund-supported adjustment programs, and the need to draw as much as possible on the World Bank's expertise in that area. There was a consensus in the Board that the Fund should continue to work constructively with the World Bank in dealing with questions of poverty, with the objective of improving Fund-supported adjustment programs and making them more acceptable to populations.

Mr. Al-Jasser said that he generally agreed with the proposed work program, although he felt that the Board could have discussed more items during the past few weeks than it had. In the period subsequent to Annual Meetings, the Board should have a fuller schedule of discussions, and it should not be too difficult to schedule discussions of operational and administrative matters for that period.

He agreed with the Managing Director on the need to extend the world economic outlook to better cover structural changes in major countries, and to devote more attention to the estimation and evaluation of potential output which should enhance the Fund's ability to contribute measurably to the process of international policy coordination, Mr. Al-Jasser continued. He concurred with the Managing Director's suggestion to hold the next review of the implementation of surveillance after the spring meeting of the Interim Committee, and he looked forward to seeing the staff paper on the measurement, determination, and systemic consequences of international capital flows, as well as the terms of reference for the study by the working party of outside experts on the measurement aspects of those flows. Those studies should enrich the Fund's understanding of the issues involved, and enhance the implementation of the Fund's mandate of surveillance.

He supported the Managing Director's suggestions on the international monetary system and the SDR, and particularly the papers dealing with the different aspects of the functioning of the SDR, Mr. Al-Jasser noted. He had no difficulties with the suggested timing for those discussions as long as they were not held too close to the Annual Meetings.

He looked forward to the paper proposing modifications to the compensatory and contingency financing facility, and particularly to the paper on the prolonged use of Fund resources, Mr. Al-Jasser went on. He agreed

that the Board should continue to be the final arbiter of Fund programs and that it should not make a hasty decision regarding the possible establishment of an independent evaluation unit. The Fund's deliberations on the matter would be more objective and thoughtful if the staff prepared a paper that reviewed the pros and the cons of establishing such a unit, and the experience of the World Bank and other relevant institutions in that regard.

In view of their impact on staff morale, several administrative matters would have to be reviewed, especially the question of estate and gift taxes, following the unsettling changes in the tax system of the host country, Mr. Al-Jasser added.

He was disappointed by the minor importance assigned in the work program to the Development Committee's request that the Fund keep under study the impact of industrial countries' trade, agricultural, and industrial policies on developing countries, Mr. Al-Jasser remarked. His disappointment had been triggered by the caveat expressed that the work would burden the staff, irrespective of the fact that the studies could show the detrimental effect of those policies on developing countries. Those policies had a critical bearing on the growth potential and trading opportunities of the developing countries, as well as of the industrial countries themselves. They also had a great impact on the ability of all countries to solve the debt problem. Given the significant impact of those policies on the world economy at large, the Fund should assign study of them more prominence in the work program.

Mr. Dawson said that he wished to express some concern about the work load of the Board since the Annual Meetings. He certainly recognized that the Board's relative inactivity reflected in part the delays associated with his own authorities' coming to a position on the Ninth Review of Quotas, but, at the same time, there should have been some means of scheduling a greater number of discussions in the period subsequent to the Annual Meetings.

His authorities continued to work hard to reach a position on the Ninth Review of Quotas; he was sure that all Directors were aware that President Bush and Secretary Brady had reaffirmed the United States' desire to reach an agreement by the end of 1989, Mr. Dawson continued. He recognized the commitment of the Interim Committee to securing an agreement by end-1989, and appreciated that the timetable of discussions in the next three to four weeks was an extremely ambitious one. One issue that Directors could discuss in the meantime was new calculations of adjustment coefficients, particularly the adjustment coefficients used in the previous quota review.

He strongly supported the emphasis of the Managing Director on the importance of studying international capital flows in the context of Fund surveillance, and hoped that the Fund would continue to explore means of improving international policy coordination, Mr. Dawson added. He also

strongly supported the proposal to establish a working party on international capital flows, and believed that attention would need to be paid to the terms of reference of the working party. Special attention would also need to be paid in the study to direct investment flows and to the issue of capital flight, although the latter issue could also be addressed in various other agenda items. He agreed that the biennial review of surveillance could be delayed until after the spring meeting of the Interim Committee.

In the months ahead, the management of the debt situation was perhaps the Fund's second highest priority after the Ninth Quota Review, Mr. Dawson stated. The staff should pay particular attention in the application of the strategy to individual countries, and in the coming review of the debt strategy, to the return of flight capital and to the promotion of foreign direct investment. His chair continued to believe, like the Managing Director, that there were no "forgotten countries" in the debt strategy.

He had no major difficulties with the seminar on the evolving international monetary system, scheduled for February 1990, although that item could be delayed again if the Board and the staff's work load proved to be too heavy, Mr. Dawson commented.

The policies on access to and use of Fund resources, and on the Fund's liquidity position, were issues that were closely tied to the Ninth Review of Quotas, Mr. Dawson pointed out. He was pleased to see that the work program included a paper on the prolonged use of Fund resources, although the proposed date for the discussion was later than he would have hoped, because the issues of prolonged use and overdue financial obligations were ones that needed to be considered in the context of the Ninth Quota Review. He looked forward to the coming review of the compensatory and contingency financing facility; and while he hoped that there would be somewhat more "automaticity" in the facility, he recognized Mr. Grosche's concerns over the difficulties in the previous discussions on the facility. He appreciated the Managing Director's reference to the possible establishment of an independent evaluation unit, although it was not entirely clear how management intended to proceed in the area. It would be appropriate if the staff prepared a paper on the different approaches to setting up such a unit, and if it had considered the World Bank's experience in that regard. The experience of the Research Department could also usefully be capitalized upon, by giving that department greater involvement in the ongoing reviews of conditionality.

His chair continued to believe that fundamental progress in resolving the arrears problem had to be an integral element of the Ninth Quota Review, which was not to say that a "solution" had to be found, or that the arrears had to be eliminated entirely, Mr. Dawson considered. A comprehensive review of the collaborative strategy should be given a higher priority in the work program than it currently had, and should take place before end-1989. The Fund would have to examine the impact of arrears on its liquidity, the adequacy of its reserves, the current

approach to burden sharing, and the possible need to develop additional means for dealing with protracted arrears cases and for preventing new cases from emerging. The Interim Committee's call on the Board to submit a report on the collaborative approach prior to the Committee's next meeting was appropriate, but there was nothing stopping the Board from acting in a more active manner.

It would be appropriate for the Board to be given more information on the comparatios between the Bank and the Fund, which would allow Directors to consider the salary review and benefit packages as a whole, instead of on a piecemeal basis, which it was in danger of doing, Mr. Dawson indicated. He was pleased to see that the results of the quadrennial survey of benefits would be available shortly, but agreed with previous speakers that it would be inappropriate for the Board to be asked to make decisions on important parts of a benefits package prior to the results of the quadrennial survey becoming available. It was important that the Board plan carefully and deliberately in the administrative area. In that regard, it might be possible to begin consideration of the issues involved by holding several informal discussions first, and it might also be useful to establish a joint committee of the Fund and Bank Boards to promote a convergence of views on those issues and to minimize the need for all Directors to become experts on benefits questions.

His chair was sympathetic to the concerns expressed by the sudden problems regarding U.S. gift and estate taxes, although it was somewhat concerned that the Board might be asked to decide on a costly solution to the problem, Mr. Dawson remarked. The staff should present the Board with a series of options, including possible means of deferring action, pending further developments in U.S. tax legislation. In any event, the problem for the U.S. Treasury was one of procedure, or of how to make various adjustments to the existing legislation. Indeed, while new legislation would be required, it was difficult for his authorities to find an appropriate vehicle and the time for submitting such legislation.

He was pleased to see the Managing Director's commitment to the paper on the CFA franc zone, Mr. Dawson said. It was also gratifying to note that Fund/Bank collaboration had certainly seemed to have improved since the agreement reached between the Bretton Woods institutions on joint procedures in the spring of 1989. His chair still believed that it would be useful to prepare a joint staff paper reviewing the status of Fund/Bank collaboration, to be taken up in the first half of 1990. A particular aspect of the letter that had been agreed between the two institutions which would be useful to follow up on in a joint paper would be the possibility of establishing a policy framework paper-like document for middle-income countries. Such a document could help the Fund, and some of its members, respond to public interest in issues such as the environment and poverty, in which the Bank had considerable expertise but in which the Fund's activities would also clearly have an impact.

He sympathized with management's concern about the work load of the staff, and believed therefore that priority should be given only to providing papers to the Development Committee that were necessary for that Committee's next meeting, Mr. Dawson considered.

He recognized that the paper for the biennial review of Fund statistics would be circulated for information only, but wondered whether it would be appropriate to put the review on a three-year cycle in the future, Mr. Dawson stated.

He noted the possibility of a staff paper on Fund/GATT collaboration, which was a subject under active discussion within and between various governments, Mr. Dawson added. It might be appropriate to submit a paper on that question before the Uruguay Round of the GATT had concluded.

The Managing Director recalled that, in their agreement on collaboration, the Fund and Bank had decided that a report on progress in implementing the new forms of collaboration should be submitted to the two Executive Boards on the first anniversary of the agreement, in March or April 1990. The agreement was working well at all levels of both institutions; the Fund had witnessed a significant and welcome change in the joint operating procedures. At present, the Deputy Managing Director only had to consult infrequently with the Senior Vice President of Bank operations, to settle particular problems. Mr. Dawson's suggestion that a policy framework paper-like document be established for middle-income countries was a good one, albeit it might not be as popular at the World Bank. Perhaps, a report on the feasibility of such a paper could be prepared jointly with the Bank, for discussion in March or April of 1990.

Mr. Dawson replied that he hoped that some progress could be made in considering a policy framework paper-like document for middle-income countries before March or April 1990, so that the Fund would not be excessively burdened in analyzing individual country programs that might more appropriately be dealt with in another institution, but on which the Fund needed to be kept informed in some fashion.

Mr. Yamazaki made the following statement:

We found the Managing Director's opening statement well balanced and well thought-out. We therefore basically agree with his elaboration of the Board's work program and work priorities.

Needless to say, the quota increase is the Board's top priority. Since our views on the quota increase are well understood by the Board, I do not need to reiterate them, and would only like to emphasize that the Board should place the highest priority on pursuing its work on the outstanding issues relating to the Ninth Quota Review, as requested by the Interim Committee.

Turning to the Fund's multilateral surveillance function, we basically support the Managing Director's proposals. However, we would like to underscore that due attention should be paid to the particular structural and historical background of each member country. In this context, we have serious concerns about the staff's intention to focus on potential output in the spring 1990 world economic outlook. Estimating potential output is a challenging and important task, and we encourage the staff to study the issue in the working paper series, as is the case with research on international liquidity and the role of the SDR. We, nevertheless, doubt the effectiveness of econometric techniques in adequately accounting for the structural differences between member countries, particularly differences in employment practices. The outcome of such a work will be greatly affected by the assumptions and analytical techniques adopted by the staff. Therefore, it would be too ambitious and premature for the staff to focus on potential output in the world economic outlook, which is the Fund's main tool for conducting multilateral surveillance.

As to the biennial review of the Fund's surveillance, we can agree to extending the deadline beyond the spring Interim Committee meeting. I welcome the Managing Director's remarks with regard to Mr. Enoch's interest in the paper on the CFA franc zone.

We are looking forward to the Board discussion on the role of national savings in the world economy, although we believe that it would be better to discuss this issue in a Board seminar rather than in a formal Board meeting, to allow greater leeway for a free exchange of views.

We firmly believe that the Fund has played, and must continue to play, an important role in the strengthened debt strategy. Therefore, it will be essential for the Fund to provide timely assistance to the member countries that are taking advantage of the strengthened debt strategy. In this connection, to provide appropriate assistance to the members that have already agreed with commercial banks on financing packages, we wonder whether the Board should by end-1989 take up the issues relating to early repurchases in connection with members' purchases derived from set-asides. It will also be necessary to take up the issue of early repurchases in connection with members' purchases derived from interest support--as well as set-asides--by end-1989.

At the Annual Meetings, Japanese Finance Minister Hashimoto referred to the need to improve the functioning of the SDR, noting that "the effort to activate SDR transactions could benefit from consideration of some arrangement whereby the industrial countries would collectively let the Fund arrange an

agreement to transact SDRs within certain limits." My authorities would therefore like the staff to explore further the merits of a two-way arrangement for voluntary transactions in SDRs between the Fund and a member, and the staff could prepare a paper for Board discussion to help expand the scope for SDR transactions. However, in view of the heavy work load of the staff and the Board, this request is a tentative one, and we would only like to encourage the staff to pursue bilateral consultations with members on two-way SDR arrangements, as well as to explore means of increasing the number of participants in two-way arrangements.

As to the proposed Board seminar on major issues in the evolving international monetary system, we wish to request that the staff paper and related documents be restricted in order to prevent any leaks to the press, since market-sensitive issues, such as the management of exchange rates, will be discussed in the seminar.

Turning to the policies on access to and use of Fund resources, we basically support the Managing Director's remarks on the topic. We can also go along with completing the review of the structural adjustment and enhanced structural adjustment facilities before the spring 1990 Interim Committee meeting. We would like the staff to explore ways of strengthening the program design and monitoring procedures under those facilities, given that structural adjustment and enhanced structural adjustment arrangements in a number of cases have not benefited members as expected, and that three-year arrangements have in some cases been interrupted.

With regard to the use of general resources, we share the concern expressed by previous speakers about the prolonged use of Fund resources, and we are looking forward to discussing this issue on the earliest possible occasion. As to the conditionality review, we would like to reiterate the need to look into the issue of repatriation of flight capital as well as the promotion of direct investment.

We share the concern of previous speakers about overdue obligations to the Fund, and believe that the momentum accumulated thus far for resolving the issue should not be lost. Therefore, like Mr. Dawson, we would like to have a discussion on this issue as soon as possible, instead of waiting until March 1990.

We wish to reiterate the importance that we attach to completing the review of benefits as soon as possible. The Staff Retirement Plan should also be reviewed in a manner consistent with that of the benefits review.

Mr. Mawakani made the following statement:

The Managing Director's opening statement adequately reflects the priorities set by the Interim Committee and the views expressed during the Annual Meeting by Governors on the tasks of the Fund. The proposed work program is comprehensive, and I have no major difficulties with it. However, it might be difficult in practice to accommodate all of the priorities set by the Interim and Development Committees, while meeting the deadlines for the completion of certain reviews, and examining adequately other pressing issues--not to mention the numerous country, administrative, and operational matters. We indeed have a very heavy schedule ahead of us. Therefore, if we are to meet the various deadlines within the available time, we need to set our priorities right and to make every effort to consider interrelated issues together.

I support the Managing Director's proposal to postpone the deadline for completing the review of the implementation of surveillance and of the principles and procedures for surveillance until after the spring 1990 meeting of the Interim Committee. It is less apparent, however, why the review of the operations of structural adjustment and enhanced structural adjustment facilities and the review of the ESAF Trust should be advanced. Given the heavy work load involved in the preparations for the spring Interim Committee meeting, we would prefer to stick to the June 30, 1990 deadline set by the Board at the past review of those facilities, unless there are strong reasons for completing and submitting the results of the review to the Interim Committee. I would appreciate hearing management's views on whether there is any operational advantage in completing the review before the Interim Committee meeting.

In line with the guidance given by the Interim Committee at its past meeting, the Board's highest priority should be continuing its discussions on the Ninth Review of Quotas. I agree with the proposed intermediate deadline of November 22, 1989, to give sufficient time to Governors to cast their votes on the resolution to be submitted to them. The Board should therefore devote much of its time during the coming few weeks to the quota issue. In view of the already crowded schedule for November, I welcome the Managing Director's proposal to hold the first meeting on quotas on November 3, 1989, during which we could well organize our following discussions.

From the tentative schedule, it is clear that there will be a "bunching" of meetings in November when the discussions on the Ninth Review of Quotas are expected to take place. To accommodate the important discussions on the Ninth Quota Review, and on some country matters, I wonder whether consideration of items such as tax harmonization in the European Community,

international coordination of tax policies, and the role of national saving in the world economy, could not conveniently be postponed to the first quarter of 1990, preferably in February, since the Board will have a light schedule then.

I support the establishment of a working party of outside experts to examine certain aspects of international capital flows. Understanding the causes of discrepancies in the global balance of payments data and the problems of unrecorded capital flows could certainly help to better assess the systemic consequences of capital flows. The working party's report could provide a useful input to the study under way on international capital flows. Could the report of the working party be available before the completion of the staff's study? I am pleased to see that the issue of the problems faced by heavily indebted countries that are neither eligible for the Toronto rescheduling terms of official creditors nor likely to benefit substantially from the Brady initiative will be examined. A number of countries in my constituency fall in this category, and I look forward to the staff paper, which, I hope, will make constructive and pragmatic proposals for solving the debt problems of these countries.

It is proposed that a paper on the policy orientation and balance of payments assistance of multilateral and bilateral aid agencies be discussed on December 1, 1989. I would suggest that this paper be considered the same day or within days of the review of the operations of the structural adjustment and enhanced structural adjustment facilities, and the ESAF Trust. Regarding the possible establishment of an independent evaluation unit, I fully support the views expressed by Mr. Jalan.

I welcome the forthcoming research on centrally planned economies, which is intended to enhance the Fund's knowledge of the complex issues involved in dealing with the ongoing reforms in these economies. For several years, the Fund has been dealing, with a certain degree of success, with the reform of centrally planned economies in Africa and in other parts of the world. Perhaps the experience gained in the reform process of these economies could help in the course of the staff's research.

The Managing Director has kindly asked for Directors' views in setting priorities among the different papers requested by the Development Committee. Since these papers are all of equal importance to the conduct of the Development Committee's business, they should be accorded the same priority. Like other Directors, I am well aware of the heavy burden posed by these papers on the Fund's limited staff resources. To accommodate the Development Committee's requests, perhaps work on some other topics that are not of immediate importance can be postponed.

However, as the saying goes "l'impossible, nul n'est tenu;" and if priorities are to be set, I would like to see the papers on the impact of debt relief measures in favor of severely indebted low-income countries be given high priority.

Ms. Powell made the following statement:

My authorities broadly support the proposed work program and the emphasis given to different items. As other Directors have noted, the work load appears to be heavy, particularly over the next month or so, given the need to fit the quota discussions into an already busy schedule. We would agree with other Directors that it would be advisable to consider a brief postponement of the discussion of certain items, if it appears that the impasse on quotas is likely to be broken. As we have mentioned before, it is important that complex issues that are significant to the Fund not be brought to the Board without adequate time for proper consideration, and that, to the extent possible, bunching of agenda items be avoided. The review of the compensatory and contingency financing facility may be an appropriate candidate for postponement.

Like the Managing Director, my authorities attach the highest priority to completing work on the Ninth Quota Review. The deadline set by the Interim Committee implies a tight timetable. We have some doubts about the usefulness of holding Board meetings until a consensus on the size of the overall quota increase is attained. However, a meeting on November 3, 1989 may help clarify what has to be done to meet the deadline.

We also attach great importance to the staff paper on the world economic outlook. This exercise has taken on increasing significance in recent years. My authorities are interested in the proposed further analysis of the policy implications of longer-run demographic changes. They also feel that the proposal to devote particular attention to the estimation and evolution of potential output in the major industrial countries is worthwhile.

We agree that it may be advisable to delay the review of the implementation of surveillance until after the spring Interim Committee meeting. With respect to the possibility of establishing an independent evaluation unit, we would agree with Mr. Al-Jasser's comments on the matter. The determinants and implications of capital flows is also a topic of increasing interest, and we will be interested in further analysis of this subject. Given the importance of capital flows, attempts to get a good handle on the measurement of such flows is also of interest. We support the proposal for establishing an expert study group on the topic and look forward to the paper outlining

the terms of reference and time frame of the Working Party. Given the earlier report on the world current account discrepancy, a paper could possibly be prepared in a relatively short period of time, although it is a complex subject.

My authorities regard as critically important a review and assessment of the management of the debt situation and of the ways in which the debt strategy is evolving. The mandate for such a review should cover all aspects of the debt situation, including the differing situations of debtor countries. We feel that, by March 1990, there will be enough experience with the strengthened debt strategy to provide a reasonable basis for assessing the guidelines established in the spring of 1989, including the policy on financing assurances and the modalities of debt reduction operations.

Insofar as the proposals relating to the international monetary system and the SDR are concerned, my authorities attach low priority to continued work on the role of the SDR, and agree that the papers on this subject should be circulated as working papers. Concerning a Board seminar on major issues in the evolving international monetary system, such a seminar would be most useful if the staff paper and Board discussion focused on issues that have not already been addressed in depth, such as the pros and cons of fixed versus floating exchange rates. However, the question of the appropriate exchange rate policy in a stabilization program for a country experiencing high inflation rates is another important issue.

We agree on the need to set priorities and to avoid overburdening staff resources. Clearly, the impact of industrial countries' trade, agricultural, and industrial policies on developing countries is an important issue, although one that has been examined recently. Nevertheless, it is an area in which developments should be monitored; and we would give a study on this subject somewhat higher priority than on the implications of regional trading arrangements. Evaluation of debt relief measures taken in favor of severely indebted low-income countries could be part of the broader review of the debt strategy.

Mr. Kafka made the following statement:

We generally agree with the suggested work program. It comprises--at least potentially--a fairly heavy schedule. Like other speakers, we feel that it is a pity that some discussions, not tied to particular events outside our control, could not have taken place in October.

The Ninth Quota Review is the next important issue. We want to make clear our strong support for keeping to the agreed timetable on the Review. We would not be prepared to sacrifice an adequate quota increase for a timely quota increase, or vice versa. Both are essential.

We welcome the various proposed studies in the work program. In the world economic outlook papers, particularly those on developing countries and the debt problem, we hope the staff will be encouraged to avoid erring on the side of optimism. We welcome the proposed seminar on the international monetary system. On the SDR--beyond the mandatory quinquennial reviews--we are not convinced that the Board or the staff should spend time on improving its quality until there is agreement on an additional allocation. One study not mentioned might be helpful; it concerns a survey of money demand equations and, more generally, liquidity demand equations, which are sadly lacking for too many developing countries. Yet these equations can be helpful, and perhaps essential, information for policy formulation. This work is an obvious job for the Research Department, which the Fund can make more practical use of. We would also find it useful to discuss in the Board the paper on the Fund and poverty issues, instead of circulating the paper only for information, as currently intended. The question of poverty is a matter that Fund program design must take into account. We favor Bank/Fund collaboration, but not a policy framework-like paper for middle-income countries, which would be an unhelpful complication. Indeed, we oppose cartels of international financial institutions.

We especially welcome the Managing Director's comments on an independent evaluation unit, an idea long defended by this chair. We hope that studies on this idea can be brought to the Board at an early stage, without prejudice to the necessary prudence required, because the subject has various implications for the organization of the institution. However, there is no need to wait until the staff has come to firm conclusions; the Board could be given a chance to start examining pros and cons even before that point. Of course, there is no reason at all to fear the establishment of an independent evaluation unit and it would be absolutely impossible for such a unit to in any way damage the position of the Executive Board as final arbiter of the adequacy and quality of adjustment programs.

We also hope that the Board's discussion on the Administrative Tribunal can lead to its establishment at a very early point in time in the new year. Too much time has already passed.

We support the suggestions made by Mr. Enoch and Mr. Prader on particular discussions that could be avoided or, at least,

be postponed. Furthermore, an attempt should be made to determine the man-hours required by the staff or the Board for the current or, at least, future work programs--a sort of time budget. It might give the Board some disagreeable surprises.

Mr. Ghasimi made the following statement:

On the Ninth General Review of Quotas, we hope that the remaining major issues on the size of quota increase and the appropriate methods for its distribution will be resolved properly, and as soon as possible. To comply with the Interim Committee's request, we support the proposed deadline for submission of the Board's report and the draft resolution to the Board of Governors.

We are pleased with the appropriate emphasis that will continue to be placed on medium-term scenarios in the world economic outlook exercise. Indeed, the planned improvements in the coverage of structural changes in industrial countries are steps in the right direction. We also concur with the Managing Director's proposal to hold the review of the implementation of surveillance after the spring meeting of the Interim Committee.

It is now recognized that the revitalized debt strategy and the increasing role and involvement of the Fund in debt and debt service reduction can reduce a major source of uncertainty, which has hindered further expansion of private investment in the productive sectors of middle-income indebted countries. In fact, in some of the eligible countries that have benefited from the revitalized strategy, the progress achieved so far is encouraging. We hope that the forthcoming paper on this subject will place more emphasis on the special needs of indebted low-income countries, and on the middle-income countries that confront debt-servicing difficulties, but have continued to remain current on their financial obligations through sound and appropriate adjustment policies--sometimes with a great deal of sacrifice. Likewise, and in line with the recommendations of the Development Committee at its past meeting, we support the Managing Director's suggestion to follow closely the problems faced by a number of heavily indebted countries that, owing to their income level and structure of debt, are neither eligible for the Toronto rescheduling terms nor likely to benefit substantially from the Brady initiative.

On the question of the international monetary system and the role of the SDR, it is by now acknowledged that the efficient functioning of that system in the 1990s requires the Fund to strengthen its coordinated surveillance of all member countries, thereby enabling it to make members' monetary and fiscal policies complementary and to ensure exchange rate stability

between them. Naturally, analysis of the international monetary system and identification of means for its improvement should be considered as an integral element of the Board's regular deliberations. In this regard, we support the Managing Director's proposal to have a seminar on major issues in the evolving international monetary system.

We broadly agree with the Managing Director's proposals on policies on access to and use of Fund resources, and look forward to the review of the operations of the structural adjustment and the enhanced structural adjustment facilities. On the forthcoming paper concerning modifications to the compensatory and contingency financing facility, we agree that it is a necessity to complete the review before December 1, 1989, and not to delay the Board's consideration of it. We hope that the important need to simplify the workings of this facility will be taken into account.

We hope that the study on the prolonged use of Fund resources will not be limited to analysis of financial issues. It is important that the extraordinary external conditions facing developing countries in the 1980s be adequately addressed in the paper, especially the evolution of commodity prices, interest, and exchange rates; the continued adverse climatic conditions in some parts of the world; trade restrictions in industrial countries; and the relatively sharp decline in financial flows to developing countries. Needless to say, prolonged use of Fund resources is often necessary from the point of view of private as well as official creditors, to support those institutions' continued exceptional financing.

We agree with the Managing Director's assessment that the possible establishment of an internal independent evaluation unit is indeed a sensitive issue that should be approached carefully, and that the Board is and should remain the final arbiter of the adequacy and quality of adjustment programs. However, we find it difficult to see any contradiction between these points and those made by the advocates of an evaluation unit.

While we are pleased by the recent declining trend in the number of member countries in arrears to the Fund, we nevertheless remain deeply concerned by the accumulation of such arrears. We reiterate our support for the evolving intensified cooperative approach, and sincerely hope that the Fund's need to implement any remedial action will remain limited. This will be accomplished if member countries in arrears to the Fund can demonstrate their willingness to cooperate with the institution, and if they are prepared to implement appropriate adjustment

policies. We certainly look forward to the forthcoming progress report on development with respect to overdue financial obligations, and to the next six-monthly review.

On the area departments' work program, it is indeed encouraging to note that many countries in Eastern Europe have undergone dramatic changes, and are showing serious commitment to introducing market-oriented economic reforms. The forthcoming seminar on market-oriented reform in planned economies is of great interest.

All the topics on operational matters specified in the Managing Director's statement are comparatively important, and we look forward to reviewing them. Needless to say, an effort to conform with the Development Committee's request to keep under study various trade issues, and the impact of industrial countries' policies on developing countries, will definitely further pressure the already strained staff resources. Nevertheless, further and regular analysis of these topics is so crucial and relevant that the Fund's continued involvement in them seems unavoidable.

We appreciate and encourage the staff to continue further research on various aspects of economies in Islamic societies.

We hope that the next work program will take due account of the Board's desire to avoid bunching of meetings in the period preceding the spring meeting of the Interim Committee.

Mr. Posthumus made the following statement:

The uncertainty with respect to the amount of progress that the Board can make in discussions on the Ninth General Review of Quotas makes the current discussion on the work program and priorities somewhat theoretical at this stage, and reflects the damage that the continued postponement of a decision on quotas is inflicting on the Fund. Yet, the Interim Committee reaffirmed its view that the Ninth Quota Review should be completed by the end of 1989. Considering that three to four Board meetings will still be required to complete the review--presumably with some intervals between them to give Directors time for consultations with authorities--the dates for these meetings should preferably be fixed. Some issues can be brought nearer to a solution, such as the distribution of an increase, the determination of the period of consent, and the position of members in arrears to the Fund. The current silence over the quota issue is disquieting, and seems to indicate acquiescence to still further postponement.

In view of the need to complete the Ninth Quota Review, and considering the other work program priorities, there are a number of subjects that should be taken off the agenda or postponed for the time being. The review of the compensatory and contingency financing facility could be postponed; in any event, the paper is too late for a decision by the Board on November 20, 1989. A difficult discussion on the review can be expected, given that what many Directors consider to be safeguards, others may see as hindrances to a facility that has few limits. The basic flaw in the facility--the linking of contingencies to the old compensatory financing facility, instead of the introduction of contingencies into regular stand-by arrangements--cannot be repaired easily. Other papers that could be postponed or dropped are those on tax harmonization in the EC, international coordination of tax policies, officially supported export credits, and on the policy orientation and balance of payments assistance of multilateral and bilateral aid agencies.

The world economic outlook remains the Fund's principal instrument for analyzing developments in the world economy and the international monetary system from a truly international point of view, and for providing advice on improvements that countries and groups of countries could make. Surveillance in the form of Article IV consultations is based on this global understanding, and is the more operational of the surveillance instruments. The Fund's role in contributing to the process of international economic policy coordination by major countries should not have the result of muting these instruments. Losing the Fund's independence in policy analysis and advice will, in the end, certainly be very costly to the institution.

I wonder why the Managing Director has asked the staff to devote particular attention to the estimation and evolution of potential output in the major countries. While research into this or any other issue should never be discouraged, it seems in this case that a specific policy issue is at stake. The Board must not forget that earlier efforts to calculate potential output led to efforts to stimulate--through fiscal and other policies--economies that were considered to be growing below their potential rates, policies that were politically attractive but economically quite problematical. Potential output, it seems, is a quite dangerous indicator.

I support the proposal to establish a working party of outside experts to undertake a study on the measurement of international capital flows. I do not believe that a study on the determinants and systemic consequences of capital flows is so closely related to the measurement study that the one should wait for the other. The study on determinants and systemic consequences should try to analyze the sustainability of large

current account imbalances, and exchange rate policy and the macroeconomic policy mix, in the light of the substantial and ongoing increases in capital flows. These same elements should also figure in the preparatory work for the proposed Board seminar on major issues in the evolving international monetary system, as the staff has indeed indicated. Work on the world economic outlook, surveillance, and the international monetary system can thus be closely linked. I would, however, propose to discontinue the custom of linking discussions on the state of the international monetary system with the debate on the question of SDR allocations. The international monetary system can be improved without an SDR allocation.

It is proposed that the review of the implementation of surveillance and of the principles and procedures of surveillance be postponed until after the deadline of April 1, 1990. In view of the necessity of strengthening the surveillance role of the Fund, I suggest that the review not be postponed. Also, I would like to give it additional content by adding a subject that, in the work program, has the place of an afterthought, namely, analytical and empirical issues in the design of Fund policy advice, particularly work on exchange rate policy and exchange rate regimes. The staff's repeated advice on exchange rate policy in many Article IV reports is that countries should follow flexible exchange rate policies. The merits of stable exchange rate policies seem to be underestimated, and perhaps somewhat better guidelines can be established. Even so, exchange rate regimes are sometimes only sustainable at great cost. In the context of the design of Fund policy advice, Directors might discuss how realignments are possible without creating the conditions and expectations for further realignments, which would indeed break up such regimes. Also, a review of the bicyclic procedure seems necessary, as it hardly saves on the Fund's most important asset--staff time--and as it has distinct disadvantages. I have developed some hesitations about the bicyclic procedure.

The review of the structural adjustment and enhanced structural adjustment facilities should take place before end-June 1990. However, I see no reason why this review should be completed before the spring Interim Committee meeting, and I propose that we keep the original target date.

We must decide before end-1989 on continuing the enlarged access policy in 1990. The question of whether this should be done through a lapse of time decision or without further discussion in the Board--and when--remains to be seen. The enlarged access policy will have to be reviewed in light of the outcome of the Ninth Review of Quotas, which means that work on enlarged access can and must be undertaken immediately after the Board's report and draft resolution on the Ninth Quota Review have been

submitted to the Board of Governors. At that time, an additional liquidity review is also necessary. If further borrowing by the Fund is being contemplated, which seems to be undesirable in principle, the Board should take an early decision and adjust the institution's access policies accordingly, rather than just continuing with an overcommitment to borrowed resources, as is currently the case.

Administrative matters will require much attention by the Board, and the Managing Director rightly gives them priority. I have little to add to his remarks. The annual reports of the Ombudsman and of the Staff Association indicate that all is not well in the Fund. We have to devote substantial time to these issues, including study of the issue of comparatios, as Mr. Enoch rightly said. The Board will also have to devote more time to better organizing some of its own business. The Committee on Administrative Matters has been postponing some issues that may not be of great concern to some Directors, but it is now time to come to grips with those issues as well.

It should be realized that, as is the case with the African and Western Hemisphere Departments, the European Department will also be facing an increasing work load. The economic reforms in Hungary, Poland, and China all require a policy approach by the Fund that is new, little tested and an important challenge. I might add that Yugoslavia, while not a centrally planned economy, in some aspects faces comparable problems and the challenge to the Fund in the Yugoslavian case is certainly no less than in other cases. The Fund's experience in Yugoslavia may be useful for providing policy advice to Eastern European countries, for example, with respect to the sequencing of the introduction of liberalization measures in regulated economies, which has not always been successful.

I am concerned about the avalanche of work coming from the Development Committee; it is indeed necessary to limit this work and give it less priority. Also, I am glad to receive Mr. Enoch's support in requesting that the Board examine the financial consequences of expelling members in arrears. In return for this, I support Mrs. Filardo's request to resume Directors' discussions on the role, if any, of Article VIII, in helping to solve some problems in the implementation of the debt strategy.

Mr. Shrestha made the following statement:

The current work program and priorities for the next few months are in line with the guidance given by the Interim Committee at its past meeting. Moreover, the work program amply

reflects the responsibilities of the Fund as an international financial institution; I can therefore fully support it.

Despite lengthy discussions on the Ninth General Review of Quotas, we have not been able so far to agree on the size of the quota increase. As the distribution of the increase will depend on the Board's decision on the size of the increase, that size will have to be determined promptly before any discussion is held on the method of distribution. A decision on this issue has to be made by the Board of Governors before end-1989. Therefore, the time has come for the Board to determine concretely its choice on the Ninth Quota Review. In this regard, I am happy to note that the first discussion has been scheduled for November 3, 1989, and I hope that we will be able to complete the quota discussions within the specified timeframe.

The analytical discussions on the world economic outlook have served a number of purposes. Important among them are the identification of problems facing the world community, the strength and weaknesses of various groups of countries, and the measures needed to counter those weaknesses. This exercise gives the opportunity for regular reviews of world economic performance. To strengthen growth in developing countries, the world economic outlook exercise should continue to emphasize the three interrelated elements of continued strong adjustment with more effective policy implementation; a favorable external environment; and the adequate financing flows for reviving productive investment. Also, this exercise should give special attention to the problems of landlocked and least developed countries, especially in developing their international trade. I support the proposed timetable for the discussion on surveillance, and the proposal to establish a working party of outside experts to undertake a study on international capital flows.

On the management of the debt situation, I support the main thrust of the proposed work program. Attention must also be devoted in any debt-related exercise to the factors that increase the debt burden, such as exchange rate fluctuations, higher interest rates, deterioration in the terms of trade, and protectionism.

I welcome the proposed seminar on major issues in the evolving international monetary system. Similarly welcome is the proposal to prepare papers on the role of the SDR and its use in reserve management, to be discussed by the Board before the 1990 Annual Meetings. The time has come for Directors to make significant progress in this direction.

On the enlarged access policy, I support the proposal to maintain the present access limits for 1990 and agree that the decisions should be taken on a lapse of time basis.

Mr. Kwon made the following statement:

Overall, my chair has no major problems with the Managing Director's opening statement, although the work load is, as usual, very heavy. Addressing the policy questions in the work program will take considerable staff resources, and the number of country programs to be considered appears more numerous than in the recent past.

I would like to reaffirm my chair's earlier position that the Ninth Review of Quotas should be completed before end-1989; hence, we have no difficulty in supporting the Managing Director's proposed deadline. However, the schedule outlined in his opening statement and in his earlier remarks appear, at the outset, to be tight, and even unrealistic, unless the largest "shareholder" in the Fund comes to a clear position in time to meet the targeted deadline. I would welcome Mr. Dawson's reassurance of his authorities' commitment to completing work on the Ninth Quota Review by end-1989.

Regarding the world economic outlook, I welcome the initiation of a staff study on the determinants and systemic consequences of international capital flows. This is an important topic, and I await the fruits of the staff's labor with great interest.

The Board discussion on the management of the debt situation, scheduled for March 1990, will be important in assessing the success of the Fund's efforts in the debt strategy. Among the many issues that will need to be reviewed on that occasion is the question of the fungibility of Fund resources in debt and debt service reduction, which I trust will be given serious attention by the staff and the Board.

The Board's regular informal sessions on exchange rate developments have been useful. My only observation is that other work in the area of the international monetary system should have a practical orientation, and should not be esoteric. My chair's views on the priority that should be assigned to work on SDRs are well known. I echo Mr. Enoch's concern about the study of the CFA franc zone, and welcome the Managing Director's assurances that this study has not been overlooked.

I hope that the Board's imminent discussions on the compensatory and contingency financing facility will provide an opportunity for a thorough review of all aspects of the facility. The suggestion by the Managing Director that a paper canvassing modifications to the existing facility should form the basis for the Board's review worries me, as it seems to imply that only marginal refinements of the existing facility will be considered. We need a comprehensive and dispassionate

appraisal of the internal consistency of the many elements making up the compensatory and contingency financing facility, now that a sufficient interval has passed since the facility's birth. Also, I welcome the upcoming paper and discussion on the prolonged use of Fund resources, which will require careful consideration.

I share the Managing Director's concern over the staff's work load. Therefore, while the Fund does have responsibilities in all of the areas in which the Development Committee has called for continuing studies, we should be wary of duplicating work being done in other international institutions.

Mrs. Yang said that she generally agreed with the proposed work program and with the views expressed by previous speakers. The Ninth Review of Quotas was certainly at the top of the Board's priorities, and, in view of the serious time constraints, it would be best if the Board could start work as soon as possible. Other questions were closely linked to the quota discussion, including the enlarged access policy and the strengthened debt strategy. She agreed with the emphasis placed by the Managing Director on the other topics in the work program. In particular, she supported his proposal to establish a working party of outside experts to undertake a study on international capital flows, and she attached great importance to the coming Board seminar on market-oriented reform in planned economies, scheduled for December 1989.

Mr. Chatah said that he broadly agreed with the suggested work program and priorities for the next few months, including the proposed timetable for the remaining work on the Ninth Quota Review.

With respect to the proposed studies on international capital flows, he agreed that the questions of the measurement of and discrepancies in the capital account, and the determinants and consequences of capital flows, should be important topics to the Fund, Mr. Chatah continued. The only question that perhaps needed some clarification was whether the staff paper on the determinants and consequences would be limited to flows between industrial countries, or whether it would also address capital flows in developing countries. He fully shared the view that, while the Fund should continue to develop its role in support of debt and debt service reduction, attention should also be paid to the problems of the heavily indebted countries that could neither benefit from the Toronto rescheduling terms nor the Brady initiative. He welcomed the Managing Director's assurance that the problems of those countries would be followed closely by the Fund, although it was not entirely clear how that would be accomplished. The Managing Director's statement on the work program in August 1989 at EBM/89/105 had indicated that the question of those ineligible countries and other related issues would be taken up in the first quarter of 1990. He would welcome confirmation that the matter would be addressed in the papers on the management of the debt situation, scheduled for discussion in March 1990.

Under the topic of conditionality, the Managing Director had addressed the question of the possible establishment of an independent evaluation unit, Mr. Chatah observed. His chair, and others, believed that such a unit was worth consideration. The Managing Director had raised a number of important issues that should be kept in mind in any serious examination of whether such a unit would be useful or appropriate.

A particularly noteworthy aspect of the current work program was the large number of important administrative issues that would be considered by the Board, or by the relevant committees, Mr. Chatah added. In particular, he welcomed the planned December 8, 1989 discussion on the question of gift and estate taxes.

As usual, the papers for the spring Development Committee meeting would be considered by the Committee of the Whole, Mr. Chatah noted. It would be useful, however, if the Development Committee clarified what exactly was expected from the Committee of the Whole. There had been some confusion in the past about the nature of the discussion to be held in the Committee, with some chairs having approached the discussion as a regular one dealing with the substance of the papers under consideration, and others having approached the discussions more or less as drafting sessions. When the staff papers for the Committee were circulated, it might be useful for them to indicate the nature of the discussion that should take place. While he sympathized with the Managing Director's concern about the burden on the staff of the work that the Development Committee had requested the Fund to do, the topics and issues that the Committee had requested the Fund to keep under study were important. He shared the views of Mr. Grosche and Mr. Al-Jasser in that connection, and wondered whether some of the questions could be dealt with in the form of supplementary notes to the world economic outlook papers.

The planned work on the design of Fund policy advice, including on exchange rate policy, and the continuing work on Islamic economies, were noted, Mr. Chatah concluded.

The Executive Directors agreed to continue their discussion in the afternoon.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/89/137 (10/27/89) and EBM/89/138 (10/30/89).

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/89/249 (10/26/89) is approved.

APPROVED: June 28, 1990

JOSEPH W. LANG, JR.
Acting Secretary

