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August 24, 1989

To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 88/145

The following corrections have been made in the final minutes of EBM/88/145 (9/9/88):

Page 1, item 2: for "Executive Board Travel...Page 29"
read "Executive Board Travel...Page 28"

Pages 25 through 29: An incorrect summing up was included; the correct text now appears on pages 25 through 28.

Corrected pages are attached.

Att: (5)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 88/145

3:00 p.m., September 9, 1988

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

Executive Directors

F. Cassell
C. H. Dallara
J. de Groote
M. Finaish
J. E. Ismael
M. Massé
Y. A. Nimatallah
G. Ortiz
J. Ovi
G. A. Posthumus
C. R. Rye
G. Salehkhoul
K. Yamazaki
S. Zecchini

Alternate Executive Directors

E. T. El Kogali
Yang J., Temporary
E. C. Demaestri, Temporary
B. Goos
L. M. Piantini, Temporary
K. Kpetigo, Temporary
L. Filardo
D. Marcel
O. Kabbaj
L. E. N. Fernando
A. Vasudevan, Temporary

L. Van Houtven, Secretary and Counsellor
R. Gaster, Assistant

1. International Economic Coordination Page 3
2. Executive Board Travel Page 28

Corrected: 8/24/89

Also Present

European Department: P. B. de Fontenay, Deputy Director; J. Saito.
External Relations Department: P. C. Hole, I. S. McDonald. Fiscal
Affairs Department: V. Tanzi, Director. Research Department:
J. A. Frenkel, Economic Counsellor and Director; A. D. Crockett, Deputy
Director; M. Goldstein, Deputy Director; R. D. Haas, Y. Harada,
P. R. Masson. Treasurer's Department: S. I. Fawzi. Western Hemisphere
Department: D. Coe, Y. Horiguchi. Personal Assistant to the Managing
Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi,
M. Al-Jasser, M. B. Chatah, W. N. Engert, M. Eran, K.-H. Kleine,
P. Péterfalvy. Assistants to Executive Directors: H. S. Binay,
V. J. Fernández, B. R. Fuleihan, J. Heywood, J. M. Jones, C. Y. Legg,
D. V. Nhien, C. Noriega, S. Rebecchini, S. Rouai, E. L. Walker.

The Chairman asked why Mr. Yamazaki was in favor of narrowing the scope of the study so drastically, as his reference to the purposes of the institution surely implied a broadening rather than narrowing of the scope of the study of spillover effects.

Mr. Yamazaki observed that a narrower study might produce more usable results.

The Chairman then made the following summing up:

There was broad agreement that coordination, while still in its early stages, had proven that it could play an important role in improving both global economic performance and the functioning of the international monetary system, and Directors emphasized that the Fund's role in imparting a global perspective to the coordination exercise was invaluable. Directors stressed that, in an increasingly interdependent world, it was essential that countries, particularly the major industrial countries, take fully into account the international spillovers of their domestic policy actions. Moreover, coordination was not a matter of altruism; it was, instead, an expression of mutual self-interest.

Although the potential gains from coordination were significant, Directors cautioned that such gains should not be exaggerated and that the benefits were not automatic. Also, coordination was not a substitute for sound macroeconomic and structural policies but rather a mechanism for bringing such policy actions into being. Directors emphasized that the quality of coordination was as important as the quantity. It was essential that coordination not be used as a means of delaying action on sound macroeconomic and structural policies. Directors also noted that there were still, and that there would always remain, obstacles to coordination, including differences in economic objectives among countries, constraints on policy instruments that reduced the room for maneuver in reaching a policy bargain, and disagreements among countries about the effects of policies. Directors were encouraged by the progress that had been made over the past three years in overcoming some of these obstacles, but more work clearly remained to be done.

Most Directors agreed with the staff paper that coordination was likely to be more effective when it was an ongoing process rather than an episodic enterprise. While coordination of fiscal and structural policies was more difficult than that of monetary policies, the Board discussion today confirmed that fiscal and structural policy measures had to be an integral part of any effective coordination process. Indeed, some Directors observed that coordination could have significant benefits in these latter areas by helping to provide governments with the

political will to make difficult policy choices. Other Directors, however, pointed out that many structural policies were desirable in any case for domestic reasons, and that in practice the extension of policy coordination to the structural area was fraught with difficulty.

Directors felt that the medium-term scenarios included in the staff paper lent support to the proposition that coordination would be most effective when it was set in a medium-term framework, when it paid due attention to fundamentals, and when it was neither too focused on a particular target nor relied too heavily on a single policy instrument.

The role and uses of indicators

Directors noted that in a medium-term context the use of indicators as an analytical framework for bilateral and multilateral surveillance was now well established. Many of the initial design issues had been satisfactorily resolved, and the challenge ahead was to build on the progress already made.

The issue of establishing monitoring zones for key indicators elicited a range of views. Many Directors argued that such zones would sharpen and enhance the role of indicators as an analytical tool, and would also strengthen the implementation of policy commitments, and some were in favor of experimenting with such zones. Other Directors, however, saw limited practical value in such work, at least at this time, and did not recommend that it be a matter of special priority.

Most Directors agreed with the staff assessment that because of the need for judgmental analysis, movements of indicators should not trigger automatic policy responses. A number of speakers supported the more limited suggestion that movements in indicators might act as criteria for triggering special consultations. Several other Directors, however, emphasized that the coordination process was still at a relatively early stage, that attempts to define desirable and sustainable outcomes for key variables exaggerated existing knowledge about the functioning of the international economy, and that the automatic triggering of even special consultations would introduce an excessive degree of rigidity into the surveillance process. Those Directors felt that the existing approach to supplementary consultations, one that relied on the judgment of the Managing Director, had operated well and should be retained.

In commenting on structural indicators, several Directors--while acknowledging that structural indicators were difficult to devise and could also be subject to misinterpretation--argued that simple indicators of distortions and rigidities in goods,

labor, and financial markets would be helpful as signals of inappropriate structural policies. Other Directors, however--while sharing the desire to improve structural policies--felt that a preferable option was to carry out detailed qualitative studies of the nature of rigidities and of the structural policies that could serve to remove them.

The role of the Fund

There was widespread agreement that the Fund--in assisting the G-7 policy coordination exercise, in the presentation of medium-term scenarios in the World Economic Outlook, in Article IV consultations, and in various other discussions in the Executive Board--had made a positive contribution to the process of strengthened coordination. Directors observed with emphasis that the Fund's key role should continue so as to provide an appropriate global perspective on these issues.

Directors were of the view that existing mechanisms--including the participation of the Managing Director in G-7 coordination meetings and the use of aggregate indicators--were making a positive contribution to economic coordination and, in particular were helping to ensure that appropriate account was taken of the repercussions of larger countries' policies on the smaller industrial countries and on the developing world. Other Directors, however, felt that existing mechanisms needed to be strengthened to improve both the flow of information and parallelism between the ongoing G-7 coordination exercise and the Fund's role in surveillance over policies of industrial countries. I have noted with particular interest Mr. Dallara's suggestion that Article IV consultations with major industrial countries analyze systematically the impact of these countries individually on the world economy. I have also noted Mr. Yamazaki's reservations on this matter, but allow me to consider that this suggestion deserves further consideration by the Executive Board.

Today's discussion was a positive one that will, I hope, maintain the momentum toward greater coordination of economic policies and, more generally, away from bilateralism and toward multilateralism. I have been encouraged by the strong support of the Board as a whole for the Fund's role in the coordination process, and I am grateful for your endorsement of the role that I play in my personal capacity in G-7 coordination. In preparing myself for the forthcoming G-7 meeting, I will be guided by the comprehensive range of views you have expressed in discussing the world economic outlook, and the summing up to be circulated to you contain a number of the principal themes that I will certainly share with G-7 Ministers and Governors.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/88/144 (9/9/88) and EBM/88/145 (9/9/88).

2. EXECUTIVE BOARD TRAVEL

Travel by Assistants to Executive Director as set forth in EBAP/88/222 (9/7/88) is approved.

APPROVED: March 16, 1989

LEO VAN HOUTVEN
Secretary