

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 88/163

10:00 a.m., November 4, 1988

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

Executive Directors

F. Cassell
Dai Q.
C. H. Dallara

E. T. El Kogali
E. V. Feldman
L. Filardo
M. Finaish
M. R. Ghasimi
G. Grosche
J. E. Ismael
B. Jalan

Mawakani Samba
Y. A. Nimatallah
J. Ovi
H. Ploix
G. A. Posthumus
C. R. Rye
K. Yamazaki
S. Zecchini

Alternate Executive Directors

C. S. Warner
J. Prader
L. B. Monyake
R. J. Lombardo
M. A. Fernández Ordóñez

O. Kabbaj

E. Kiriwat
L. E. N. Fernando
J. E. Zeas, Temporary
W. N. Engert, Temporary
N. Toé, Temporary
I. A. Al-Assaf

D. Marcel
G. P. J. Hogeweg

S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
M. J. Miller, Assistant

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Also Present

Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; J. D. Huddleston, N. S. Jackson, P. J. McClellan, L. A. Wolfe. African Department: E. L. Bornemann, Deputy Director; G. E. Gondwe, Deputy Director. Asian Department: H. Neiss, Deputy Director; A. Singh. Central Banking Department: J. B. Zulu, Director. European Department: M. Russo, Director; M. Guitián, Deputy Director. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; E. Brau, G. R. Kincaid. External Relations Department: A. F. Mohammed, Director; R. J. Bhatia, Special Representative to the United Nations; P. C. Hole. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel. Research Department: J. A. Frenkel, Economic Counsellor and Director; A. D. Crockett, Deputy Director; M. Goldstein, Deputy Director; R. C. Baban, E. Hernández-Catá, P. Wickham. Secretary's Department: C. Brachet, Deputy Secretary; A. P. Bhagwat. Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer. Western Hemisphere Department: S. T. Beza, Director. Bureau of Statistics: J. B. McLenaghan, Deputy Director. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisor to the Deputy Managing Director: W. A. Beveridge. Advisors to Executive Directors: N. Adachi, M. Al-Jasser, P. E. Archibong, E. Ayales, M. B. Chatah, A. G. A. Faria, S. M. Hassan, P. Péterfalvy, G. Pineau, S. P. Shrestha, A. Vasudevan. Assistants to Executive Directors: F. E. R. Alfiler, E. C. Demaestri, Di W., S. K. Fayyad, B. R. Fuleihan, S. Guribye, M. Hepp, A. Iljas, P. Kapetanović, K.-H. Kleine, K. Kpetigo, C. Y. Legg, V. K. Malhotra, R. Marino, J. K. Orleans-Lindsay, L. M. Piantini, S. Rebecchini, A. Rieffel, S. Rouai, J.-P. Schoder, C. C. A. van den Berg.

1. EXECUTIVE DIRECTORS

The Chairman welcomed Mr. Jalan, Executive Director, and Mr. Lombardo, Alternate Executive Director, to the Executive Board.

2. WORK PROGRAM

The Executive Directors considered the work program for the period preceding the spring meeting of the Interim Committee, together with a tentative schedule of meetings for the same period (Secretary's Circular No. 88/105, Rev. 1, 11/3/88).

The Chairman made the following statement:

With the Berlin meetings behind us, it is timely to turn our attention to the tasks in the period ahead. I have been encouraged by the strong support which Governors in their statements at the Annual Meetings gave to the continuing central and catalytic role of the Fund. In my address to the meetings, I focused on a number of objectives for the Fund in the medium term; my views are well known to Executive Directors inasmuch as they have been crystallized by our continuing work in the Executive Board. The Interim Committee has given us useful guidance on key issues such as the Ninth Quota Review, the debt situation, and has endorsed our collaborative strategy on overdues. It is now time to move ahead in these and other areas. Indeed, in the operational field we have completed the review and updating of the Fund's facilities and we have reviewed conditionality. What we now need is strong programs to assist our member countries in their efforts to achieve satisfactory growth and to grow out of debt. In addition, we will continue our efforts to strengthen multilateral and bilateral surveillance through the World Economic Outlook exercises and the Article IV consultations. We will also, as it is our task under the Articles of Agreement, give appropriate emphasis to our work on systemic issues.

In proposing the program of work that follows, I have been particularly mindful that it should be manageable for the Executive Board, the management, and the staff within the available time frame. The priorities and the schedule of meetings that I am suggesting should be compatible with an even flow of work in the period ahead and the avoidance of "bunching" of meetings in the weeks preceding ministerial meetings. In the Board discussion on this work program, I am also looking forward to an indication of Executive Directors' preliminary thinking on the agenda for the spring 1989 meeting of the Interim Committee. Sometime in January, we will discuss the provisional agenda for the April meeting of the Interim Committee, and can take that opportunity to review this work

program and to have a preliminary discussion on the work priorities for the period after the spring 1989 meetings. It will be evident that the work program may strain staff resources in certain areas, and we will have to be vigilant to promote, as needed, the strengthening and reallocation of resources in line with our priorities.

To permit the newly constituted Executive Board to have the opportunity to consider this work program at the beginning of its term, I suggest that we exchange views on it at the Board meeting on November 4, 1988.

1. World economic outlook

The spring 1989 world economic outlook report will as usual present the staff's short- and medium-term projections for the world economy. Alternative medium-term scenarios will serve to illustrate the interaction of policies among the major countries and among groups of countries; will provide a basis for analyzing the prospects for reducing payments imbalances among the key industrial countries; and will examine the conditions for a return to stronger and more broad-based growth in the developing world. Any warning signals on the inflationary front will need to be monitored and evaluated carefully. The discussion of policy issues will draw on the results of scenarios and include an assessment of the role of structural policies. Executive Board discussion of the world economic outlook could take place on March 15, to be concluded on March 17.

A staff paper on structural policies in industrial countries will extend the analysis contained in the recent world economic outlook annex on structural indicators (SM/88/181) and could be scheduled for Board discussion on January 13, 1989. It is also intended to serve as background material for the main world economic outlook paper which will extend the use made of the indicators identified in earlier discussions by the Board and the Interim Committee.

In addition, a number of supplementary notes will present more in-depth analysis of specific issues of current interest: they will include, inter alia, a staff study on the relationship between debt and economic performance and a paper on developments in the world oil markets.

A report on the midterm review of the GATT Uruguay Round to be held in Montreal in December 1988 will be issued by early February for the information of the Executive Board.

2. Ninth General Review of Quotas

We must now move ahead in order to complete the work on the Ninth General Review of Quotas in time for the next Interim Committee meeting and the deadline of April 30, 1989. In light of that objective, I propose to schedule a meeting of the Committee of the Whole on November 18, at which we could deal with: (i) the issue of the data to be used in the Ninth Review (updated quota calculations based on 1986 data have been provided in EB/CQuota/88/6); (ii) the issue of ad hoc quota increases in the context of the Ninth Review ("Considerations Relating to Special or Ad Hoc Increases in Quotas," EB/CQuota/88/8); and (iii) Mr. Sengupta's paper ("Some Issues Relating to Criteria for Determining IMF Quotas: A Technical Note," EB/CQuota/88/4), and a staff review of this paper, which will be issued shortly.

Further papers presenting illustrative calculations on the size and distribution of quota increases will be circulated, as needed by the Executive Board. Other related matters that will need to be taken up in the light of progress made on the size and distribution of the overall increase include (i) considerations pertaining to the relatively small quotas in the Fund; (ii) the matter of payment of the reserve assets subscription; and (iii) policy with respect to members having overdue financial obligations to the Fund. These latter two topics have already been discussed by the Committee of the Whole on the basis of a staff paper (EB/CQuota/88/1) and a paper on small quotas could be issued before the end of the year.

The Interim Committee has asked for a report from the Executive Board before the Committee's next meeting. In addition, the requisite draft report of the Executive Board to the Board of Governors containing appropriate recommendations and a draft resolution, to be submitted to the Board of Governors before April 30, 1989, on increases in quotas under the Ninth General Review will be prepared.

3. Management of the debt situation

The situation of the heavily indebted countries and the means for dealing with it were undoubtedly among the most important topics of comment by Governors at the Berlin meetings. The broad consensus continued to be that our strategy of a case-by-case, market-based approach remains valid for the future provided that it retains its basic characteristic of adaptability to changing circumstances and its principle of shared responsibility. The continuing role of the Fund in this regard, including particularly the effectiveness of its catalytic function and the correspondence between menu options and the financial situation of heavily indebted countries, will be reviewed in a paper which will also focus on initiatives flowing

from the Toronto summit with regard to official foreign debt of low-income countries. Executive Board consideration of this subject has been tentatively scheduled on March 20. The staff is also preparing a paper providing an analytical basis for comparing and assessing the characteristics of different menu items for Board consideration on a date to be agreed.

In a paper reviewing developments in the international capital markets, the staff will discuss their significance for the debt situation as well as present, and assess, the views of market participants on the evolution of the menu approach. The paper will also examine the implications for member countries of increased financial integration in both Europe and North America together with recent supervisory changes and efforts to ensure the underlying stability of the financial system. Board consideration is proposed for January 6, 1989.

As on prior occasions, operational issues in the debt strategy would be discussed prior to the 1989 Annual Meetings in a paper on the management of the debt situation. Further background would be provided by a paper reviewing recent Paris Club reschedulings. These two papers are planned to be issued in July 1989. The staff is keeping under review the issue of financing assurances for Fund-supported programs and is studying ways of obtaining adequate assurances in circumstances that may involve a wide variety of menu options in financing packages.

4. Functioning of the international monetary system

The Interim Committee communiqué recalled the continuing responsibility of the Executive Board "to keep the working of the international monetary system under review, and to identify ways for its improved functioning in a multilateral framework."

The staff is preparing a paper on "The European Monetary System in the Context of the Integration of European Financial Markets," which has been tentatively scheduled for Board discussion on February 1. Two other papers on "Key Issues in the Functioning of the International Monetary System" and "Nominal Anchors for the International Monetary System" are also under preparation. At least the first of these would be circulated for Board consideration during the current work program period.

The Interim Committee welcomed the progress made in strengthening the process of international policy coordination and emphasized the need to build on that progress. In this connection, the Executive Board was encouraged "to explore the possible strengthening of surveillance, both in the fields of economic indicators and in the area of structural policies." Work on economic policy coordination is being pursued in the context of the world economic outlook reports as noted above in Section 1.

Our work on the functioning of the monetary system will be an essential input to a consideration of whether more precision could usefully be given to the existing principles of Fund surveillance under Article IV. As Directors are aware, the document "Principles of Fund Surveillance" has to be reviewed by the Board not later than April 1, 1990 and this review would be an occasion to take stock of the implications of our work for a possible revision of the principles of surveillance. If Directors wish, however, the staff could prepare an exploratory paper on this subject for discussion in early 1989.

In keeping with the Executive Board's surveillance responsibilities, informal sessions on exchange rate developments have been scheduled on November 2, mid-December, early February, and mid-March. We would also plan to have them with a similar frequency in the next work program period.

5. The SDR and international liquidity

The Interim Committee welcomed the consideration of issues related to the concept and measurement of international liquidity and requested the Executive Board to pursue its work in this area. In addition, the Executive Board was encouraged to "continue its study of how to increase the usefulness of the SDR as a reserve asset," and to keep under consideration the question of a resumption of SDR allocations during the remainder of the fifth basic period. The staff plans to prepare a paper on "The International Monetary System and the SDR" that would discuss possible approaches to invigorating the role of the SDR in the international monetary system and relate the SDR's evolution to the broader nature and development of international liquidity. This paper has been tentatively scheduled for Board discussion on March 6.

On the issue of SDR allocation, I could carry out informal consultations with Executive Directors prior to the April meeting of the Interim Committee. Also a paper entitled "Further Consideration of Issues Relating to Post-Allocation Adjustment in the Distribution of SDRs," building on a Board discussion of this subject a couple of years ago, will be issued early next year.

Other staff papers under preparation on increasing the usefulness of the SDR are as follows: (i) Possible Use of SDRs in Exchange Market Intervention; (ii) A Survey of Views on the SDR in the Reserve Management in Major Countries; and (iii) The Role of the SDR in the Diversification of Exchange Reserves. The first of these is planned to be issued around the beginning of 1989 and the remaining two for later in 1989.

6. Lending in parallel with Fund arrangements

The Alternate Governor of the Fund for Japan announced at the Annual Meetings Japan's intention to lend in parallel with Fund arrangements. A staff paper describing the nature and modalities of parallel lending by Japan and the role to be played by the Fund staff in connection with such lending activities is about to be issued for Board consideration on a date to be agreed.

7. Overdue financial obligations

The Interim Committee has endorsed the multifaceted approach that we have proposed with respect to the problem of overdue financial obligations, involving preventive measures and intensified collaboration where members in arrears are cooperating with the Fund. The Committee has requested the Executive Board to pursue its work on the modalities of such a cooperative approach in resolving the problem of arrears and to report back to the Committee at its meeting in April 1989. We must now act to implement that strategy; we shall do so by intensifying our efforts to resolve individual cases of overdue obligations and to avoid new cases from arising. Progress reports will be submitted to the Executive Board. A proposal on the establishment of a support group for a member in arrears will be discussed with Directors in the coming days and management will consider similar action in other cases, as appropriate. We will also keep in mind the further development of preventive and remedial measures.

Reviews of a number of individual members in arrears to the Fund are at present on the Board's agenda and, under the existing procedures, many papers reviewing members' positions will likely need to be scheduled in the coming months. In that connection, the staff's next six-monthly report to the Board on overdue financial obligations to the Fund will include a review of the current procedures for dealing with individual cases. This paper has been tentatively scheduled for discussion on December 14.

A paper on "Suspension of Membership in the Fund under the Articles of Agreement," elaborating on certain aspects of SM/87/229, is also in preparation for consideration by the Executive Board.

8. Access to and use of Fund resources

In accordance with the agreement in the Interim Committee that the present access limits under the enlarged access policy should be maintained for 1989, a paper incorporating proposed decisions on the extension of the enlarged access policy and the

continuation of access limits under it for 1989 would be issued for consideration by the Executive Board in November/early December, possibly on a lapse of time basis. As noted by the Interim Committee, the enlarged access policy should be reviewed in the light of the outcome of the Ninth General Review of Quotas.

A paper reviewing experience with enhanced surveillance and its possible adaptations to provide a basis for access to the compensatory and contingency financing facility will be issued shortly and has been tentatively scheduled for discussion on November 16.

The decision on the compensatory financing of fluctuations in the cost of cereal imports, which has been integrated into the compensatory and contingency financing facility, will lapse on May 13, 1989 unless extended by the Executive Board. A staff paper reviewing experience with the cereal decision will be needed. It is proposed that this review be undertaken at the time of the first review of the compensatory and contingency financing facility which is to be carried out not later than December 1, 1989; this would require a temporary extension of the cereal decision.

A number of additional enhanced structural adjustment borrowing arrangements will be brought to the Board in the coming months as and when particulars of each arrangement are completed. The staff report for the review of the structural adjustment/enhanced structural adjustment facilities and the ESAF Trust (to be conducted by March 31, 1989) will examine the operational issues relating to these facilities, including the resources, access limits, conditionality, and monitoring. It will also discuss experience with the mobilization of aid resources and the role of aid agencies in the policy framework paper process. Executive Board consideration has been tentatively scheduled on March 13.

The Interim Committee has noted the importance of close coordination of the form, timing, and conditions of the official balance of payments assistance provided in support of growth-oriented adjustment programs being implemented by low-income members. A staff paper entitled "Official Balance of Payments Assistance for Low-Income Countries and Fund-Supported Programs" will review the extent and coordination of policy-based balance of payments assistance by multilateral and bilateral aid agencies and discuss implications for Fund-supported programs. The preparation of this paper will require extensive information from aid agencies for which the assistance of Executive Directors' offices will be requested. This paper could be for Board consideration shortly after the Interim Committee meeting.

9. Conditionality review, program design and Fund-Bank collaboration

A staff report for the periodic review of the application of conditionality will draw on the experience with adjustment programs of a number of countries, based on case studies of the effectiveness of those programs; it has been tentatively scheduled for discussion on March 10.

The staffs of the Bank and the Fund have been requested by the Development Committee to prepare in a closely coordinated and integrated manner background documentation for each of its next two meetings which will permit, on the basis of experience gained, consideration of various aspects of the subject of growth-oriented structural adjustment programs. The staff report to be prepared for the next meeting of the Development Committee will draw on recent experience under Fund arrangements as presented in the papers mentioned above on the review of the SAF/ESAF and the review of conditionality. Consideration by the Committee of the Whole could take place on March 13 when the SAF/ESAF review will also be on the agenda.

A staff study providing a synopsis of results of recent research papers and their implications for program design has been scheduled for a seminar discussion on February 17, 1989; the discussion should afford an opportunity to exchange views on the appropriate focus of future work in that area.

A paper summarizing the present practices on collaboration between the World Bank and the Fund is being prepared at the request of the G-10 Deputies and would be circulated to the Board for information in November concurrent to its transmittal to the G-10 Deputies. A policy paper would explore ways to strengthen Fund-Bank collaboration by focusing on issues that have arisen. In particular, the modalities of collaboration will be covered with a view to increasing the effectiveness of such collaboration. This paper would be issued in May 1989.

10. Area departments' work program

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

On the basis of projections by the area departments, it is anticipated that, in the six months through April 1989, some 60 staff reports for consultations under Article IV will need to be considered by the Board. This number is similar to that presented in recent work programs and reflects modest reductions from earlier years due to the use of the bicyclic consultation procedure introduced in early 1987. In the current work program

period, several reports on interim Article IV discussions will be issued for information, with no Board discussion expected. Also during the period to end-April, around 10-15 reviews under existing arrangements are projected to be brought to the Board's agenda. Area departments' projections also indicate that as many as 35 requests for use of Fund resources may be brought to the Board in the period through end-April 1989, provided negotiations on such requests lead to programs deserving of Fund support within the time frame of the projections. Of these requests, approximately one third would be for stand-by arrangements. The remainder include requests for arrangements under the structural adjustment facility (12-13 requests) and enhanced structural adjustment facility (8-9 requests). Exploratory discussions are also expected concerning a number of programs that could be supported by recourse to the extended Fund facility and also the compensatory and contingency financing facility.

11. Administrative and related matters

Directors have already received the Report of the Joint Bank/Fund Committee of Executive Directors on Staff Compensation and my preliminary reactions; a paper incorporating more detailed management comments will be issued in the near future. I suggest that we have a preliminary Board discussion of this complex subject in early December and that we take that opportunity to try and sketch out the time frame of our further work on this matter.

At the Board discussion last July, a further paper was requested on the establishment of an Administrative Tribunal for the Fund, in order to analyze, in particular, the relationship of a tribunal to the Grievance Committee, and the implications of accession to the World Bank's Tribunal. This paper--to be entitled "Establishment of an Administrative Tribunal for the Fund - Some Further Considerations"--is planned to be issued in early December and has been placed on the Board's agenda for January 11.

Executive Directors have already discussed the possibility of expanding the headquarters building and this matter would be brought to the agenda in the near future. Supplementary papers on the financial aspects and on the space implications of the Fund's manpower requirements would be issued to be available for that discussion.

The review of the Staff Retirement Plan is expected to be taken up by the Pension Committee before the end of the year, and the recommendations of the Committee will be put before the Executive Board for decision. The timing of the Board discussion will depend on the deliberations of the Pension Committee.

In order to strengthen the Executive Board's involvement in the formulation of the annual Administrative and Capital Budgets, I intend to put forward in December a preliminary paper examining the budgetary outlook for FY 1990; the aim would be to give Executive Directors an opportunity to express their views on budget priorities. Board consideration has been tentatively scheduled on January 20. Prior to that and for the information of Executive Directors, a report on "Midyear Review of Administrative and Capital Expenses for FY 1989" will be issued in early December. The budgets proposed for FY 1990 will be issued as usual in March and Board discussion has been tentatively scheduled for April 17.

A paper on the review of Fund technical assistance will be issued for consideration by the Board in early 1989.

In addition to these major topics, there are likely to be a number of other administrative matters that will be brought to the attention of the Committee on Executive Board Administrative Matters (CAM) or the Committee on Administrative Policies (CAP), and Board decisions may be required on the recommendations of these committees.

12. Operational and other matters

a. Burden sharing decision:

A paper incorporating a six-monthly review of the operation of the "Principles of Burden Sharing" will be issued shortly and is proposed for Executive Board discussion on November 23. Additional papers on the review of the operation of this decision will need to be issued in January 1989 and possibly in subsequent financial quarters in as much as the floor of the remuneration coefficient might be reached; these papers will need to be issued very close to the end of each financial quarter and will need to be considered by the Board promptly after issuance. The present Decision on Burden Sharing is in effect to the end of FY 1989 and a paper will be issued in late February 1989, providing the basis for the review of the decision; it could be brought to the agenda shortly after the April Ministerial meetings.

b. Fund's income position:

A report for the midyear review of the Fund's income position has been placed on the agenda for December 12. A paper for the annual review of the Fund's income position will be issued in early April in time for the Board's discussion of the Administrative Budget, and an updated version will be issued by late May/early June for consideration by the Executive Board.

The annual review of the system of special charges on overdue financial obligations will need to be conducted at the same time.

c. Fund's liquidity position:

A paper providing a semiannual review of the Fund's liquidity position and financial needs will be issued in early March 1989.

d. Annual Report:

Board discussion of a paper on the Restructuring of the Annual Report is scheduled for October 26. An outline of the Annual Report for 1989 will be presented for Board approval in the early spring, possibly on a lapse of time basis.

13. Staff studies and research

The thrust of the staff's research effort is designed to support the priorities periodically formulated in the Work Program. At the present time, research efforts are going forward in the following broad areas: to underpin the analysis of the world economic outlook; to help make an analytical contribution to the evolution of the debt strategy; to clarify options for strengthening the functioning of the international monetary system (including through enhancing the usefulness of the SDR and developing coordination mechanisms); to review issues related to the design of adjustment programs; and to investigate economic issues that arise in individual country consultations. (The last includes research on economic issues in Islamic societies and centrally planned economies.) Beyond this, research on monetary, fiscal, and structural issues is going forward in support of the Fund's technical assistance responsibilities, as well as in a more general context; and legal studies are being undertaken to clarify aspects of the Fund's Articles and practice.

Studies in these and other areas will continue to be distributed in the IMF Working Paper series, as supporting documents for the world economic outlook and for Article IV discussions, and in other ways.

In addition to the studies mentioned earlier, the following would also become available in the coming months:

a. A comparative analysis of market-oriented reforms and their implementation in centrally planned economies, to be circulated by May/June 1989.

b. A paper on fiscal policy in Islamic societies, to be issued in December/January.

c. In response to a request at the last work program discussion, a revised and updated pamphlet on the Fund's financial structure is planned for publication in the spring of 1989.

In concluding, I would like to take note of a suggestion from Executive Directors that advancing the timing of the Board's informal recess in the summer by a week would contribute to a more even flow of work and, in particular, result in some relief in the press of business experienced during the period immediately before the Annual Meetings. Accordingly, subject to your reactions, the period of the informal Board recess next year could be from Monday, July 31 to Friday, August 11, 1989. Determined efforts will be made to limit Board meetings to the normal weekdays for our meetings, namely, Mondays, Wednesdays, and Fridays, and to avoid scheduling meetings on Tuesdays and Thursdays.

Mrs. Ploix made the following statement:

I broadly concur with the main topics in the work program.

We should absolutely make our best efforts to adopt realistic and well-balanced work programs, which are essential for the quality of our work, as well as that of the staff. We strongly believe that the role of the Board cannot but be weakened if we are not careful in this regard, but the recent trend has been worrying. While recognizing the efforts to make the current work program more manageable than previous ones, I am convinced that we should still explore new means of securing better working conditions. I will make three suggestions in that regard.

First, I notice that the agenda until the end of 1988 is rather sparse. I am especially concerned that only a limited number of reports on country matters have been issued; one therefore fears that few country matters will be discussed in the coming weeks, and that they will instead be brought to the agenda either in the second half of December, or even in the following quarter, when we would prefer to devote most of our time to discussing many policy matters. On the question of policy matters, I notice that many discussions will take place in March, while the schedule for February seems rather light. Therefore, while bearing in mind the operational constraints, I still think that we should be able to manage a better work load distribution, some of the discussions presently planned for March 10-20 to February 1989.

Second, improved organization should imply avoiding, as far as possible, an overlapping of some of our discussions; indeed, we are driven to having frequent discussions on almost identical subjects, in which we repeat, at least partially, our own statements. Hence, I favor a better clustering of closely related topics. Obviously, this does not mean that we should confine ourselves to overly general debates; on the contrary such an approach should enable us to clarify the issues we address, without necessarily increasing the number of discussions. One solution might be to have a more general debate on topics such as the debt strategy or the functioning of the international monetary system, followed, if necessary, by discussions on more specific issues. All these discussions could take place within a rather short period of time.

Third, we must avoid making too many changes in the agenda--which could disturb the planning of our work load--while maintaining some degree of flexibility in the agenda. We should be able to ask that discussions be advanced, if that is needed, or that certain topics be postponed, when the agenda becomes overloaded. In any case, the Board should play a more important role in planning the agenda by providing guidance to management. We should continue to express our views at reasonable and regular intervals on the tentative schedules proposed by the Secretary--certainly more frequently than twice a year.

On the world economic outlook and the functioning of the international monetary system, my authorities welcome the discussion on structural policies in industrial countries, since they are of the view that we must go ahead in this area. However, we should avoid duplicating the work of the OECD. My authorities cannot but emphasize the continuing role of the Fund in looking for ways of improving the functioning of the international monetary system. Some interesting topics have been proposed for discussion, and I wonder if it would not be helpful to regroup our debates within a limited stretch of time, in light of my proposal on clustering. I also suggest that the experience of the European Monetary System be considered not only in connection with the integration of financial markets, but also in relation to the paper on nominal anchors.

As regards the "principles of surveillance," it would seem better to postpone the review of surveillance to allow more time for a better assessment of the implications of the Fund's work in this field.

As far as the Ninth General Review of Quotas is concerned, it is time now, in view of our deadline of next April, to adopt a more operational approach which could lead to a decision.

I have no difficulties about the agenda concerning the management of the debt situation; I would only suggest clustering the paper assessing the characteristics of different items with the paper reviewing developments in the international capital markets.

We can support the continuation of studies on the role of the SDR in the international monetary system. On the issue of an SDR allocation, we would have preferred a more formal discussion prior to the next Interim Committee meeting, based solely on the papers that have been produced by the staff over the past two years. Last, we note that many papers on closely related issues are to be distributed in the near future; I therefore suggest that we try to cluster them as much as possible.

I can go along with the planning of our discussions on overdue financial obligations. The Board must obviously be closely informed on developments in this area, particularly on the implementation of our cooperative approach; this implies that we should have discussions--both formal and informal--as often as necessary.

I broadly agree with the main outline of the program on the Fund's financial policies. We support the suggestion that the extension of the enlarged access policy be decided on a lapse of time basis. We also support the temporary extension of the decision on the compensatory financing of fluctuations in the cost of cereal imports, until the next review of the compensatory and contingency financing facility. We are concerned by the small number of agreements reached so far under the enhanced structural adjustment facility, and therefore we would like to examine the reasons why the discussions with eligible countries are proceeding so slowly before the formal review. I am unclear as to the purpose of the paper on official balance of payments assistance for low-income countries and Fund-supported programs, and would appreciate some clarifications. Is this paper related to the World Bank's experience with the Special Program for Africa?

With respect to conditionality and program design, we consider that it is helpful to look further into the subject of growth-oriented adjustment programs. However, we must remember that the traditional macroeconomic conditionality is in the very nature of the Fund, and that the stand-by arrangement must remain the basic instrument for adjustment within a reasonable time frame. In this context, it would also be interesting to have a discussion focusing mainly on the problems of implementing our basic macroeconomic conditionality.

I note that no discussion is scheduled on the important problem of Bank-Fund collaboration until the Interim Committee.

Especially in light of the most recent developments, however, I believe that we need to hold a comprehensive and thorough discussion in the near future. Perhaps the paper which will be transmitted to the G-10 Deputies could give us the opportunity to have a preliminary exchange of views on this matter. It would have also been helpful if the differences between that paper and the one which is to be distributed after the Interim Committee meeting on the modalities of collaboration had been explained.

We wonder if an annual review of the Fund's liquidity position would not be sufficient, provided that we are able to discuss the subject when necessary.

We are in favor of advancing by one week the timing of the Board's informal recess during the summer.

Mrs. Ploix further requested that the discussion on burden sharing scheduled for November 23 either be brought forward to November 16, or delayed until December 7. She wished to attend that discussion, but would be in Paris with the President of the World Bank on the scheduled date. However, if that suggestion was not convenient to her colleagues, she would not press it.

Mr. Yamazaki stated that November 16 would not be convenient from his point of view, although December 7 would be possible.

The Secretary commented that Mrs. Ploix's proposal might be reserved until the end of the discussion, by which time the reactions of Directors would have been heard in their statements.

The Chairman stated that he had taken note of Mrs. Ploix's proposal, as well as Mr. Yamazaki's reservation with respect to the date of November 16.

Mr. Yamazaki made the following statement:

I welcome this opportunity to discuss the work program until the time of the spring Interim Committee meeting. While I generally support both the approach and the timing that the Chairman has proposed, I would like to express my view on the priorities, as well as on the approach and the timing. Before doing so, I would like to thank the Chairman not only for his elaborate preparation of the work program, but also for his consideration in trying to keep the work program manageable for the Executive Directors.

I will not touch upon every topic addressed in the Chairman's work program statement, not because they are unimportant, but simply because I generally support the statement.

I welcome the further strengthening of Fund surveillance indicated by the extension of the coverage in the world economic outlook to the topic of surveillance. However, my authorities posed a serious question regarding any greater focus on structural policies in the context of the world economic outlook. My authorities are concerned that the world economic outlook is not well suited to reviewing the historical and social background of economies, which differs significantly from one country to another. Structural policies should be analyzed and assessed on a case-by-case basis, taking into full consideration the historical and social structure particular to the member country concerned. Moreover, as a caveat, I must stress that the Fund should address the structural issues only in the context of its responsibilities, such as the promotion of exchange market stability and the lessening of international balance of payments disequilibria. One more caveat should also be added--we should take care not to aggravate the staff's already heavy work load, by requesting additional work from it on structural policies.

I attach the highest importance to the Ninth Quota Review in the period ahead, and I agree completely with the Chairman's statement that the Executive Board must move ahead to complete its work on quotas in time for the spring Interim Committee meeting. Since the adjustment of the quota shares of member countries to make them correspond to contemporary economic realities is urgent, and since current quotas should be augmented substantially so that the Fund's financial base can be strengthened, I believe that the Executive Board should not fail to meet the deadline set by the Board of Governors of April 30, 1989 for the completion of the report. In that regard, the Alternate Governor for Japan stressed at the Annual Meeting in Berlin Japan's clear intention to request a special quota increase in the context of the Ninth General Review of Quotas.

I fully support the Chairman's statement on the management of the debt situation.

I also have no difficulties with the Chairman's statement regarding the functioning of the international monetary system. However, I might call your attention to Alternate Governor Sumita's speech in Berlin, when he stated that "this is an opportune time to step back and look at possible ways to improve the functioning of the international monetary system from the medium- to long-term perspective....I believe that it would be more realistic at this point to consider ways of diversifying reserve currencies to complement the dollar's key role, thereby facilitating the functioning of resources for market intervention and dispersing the exchange risk of reserve currencies." I hope that the staff will pay due attention to the promotion of a multiple reserve currency system in the forthcoming paper on the functioning of the international monetary system.

Following the request of the Interim Committee, we should proceed with our work on the concept and the measurement of international liquidity. I also encourage the staff to examine the role of the SDR in the floating exchange rate system in the forthcoming paper on the international monetary system and the SDR. Moreover, with regard to SDR allocations, I would encourage the staff to study feasible ways to improve the functioning of the SDR and to expand the scope of SDR use, as suggested by Alternate Governor Sumita in Berlin.

The issue of parallel lending is very important to us. I hope that this initiative will help promote the growth of developing countries, and thereby contribute to solving the debt problem.

I would like to reiterate our belief in the urgent need to redress the problem of overdue financial obligations. I call the Board's attention once again to my proposal to maintain the Fund's sound financial base. It is imperative that we seek measures to safeguard the Fund's financial position, as well as to resolve the individual cases of arrears to the Fund.

I was a little surprised at the staff paper on the review of the principles of burden sharing. I understood from the Chairman's summing up of the discussion on overdue financial obligations to the Fund (EBM/88/110, 7/21/88) that my proposal on maintaining the Fund's sound financial base would be discussed on the occasion of the review of the burden-sharing decision. Although the staff did not refer to my proposal in the paper, I hope that the Executive Board will pay due attention to it.

I am seriously concerned about the recent experience with respect to Fund-Bank collaboration. It might be advisable to examine the issue, and explore ways to strengthen Fund-Bank collaboration, at the earliest possible time, preferably before the Interim Committee meeting in the spring.

The highest priority for the agenda of the spring meeting of the Interim Committee should be the Ninth Quota Review. It would be quite difficult for us to finalize our work in time for the deadline of the end of April without the Interim Committee's guidance. It might also be useful for the Interim Committee to discuss Fund-Bank collaboration.

Mrs. Filardo made the following statement:

I would like to take this opportunity to express my authorities' appreciation to the Chairman for his thoughtfulness,

imagination, and leadership in managing the Fund's very difficult problems. In my authorities' view, the Chairman has made a great effort in trying to change and improve the Fund's image and to enhance the role it will play in dealing with the difficulties of the world economy, especially those related to the international monetary system and debt issues in the poor and highly indebted countries. Examples of the progress achieved so far are the creation of the enhanced structural adjustment facility and the compensatory and contingency financing facility, the revitalization of the extended Fund facility, and the Managing Director's more active participation in the process of coordination among the G-7 countries. Unfortunately, there is still much to be done, and the Fund will need to play a central role in the solution of many pressing issues.

As the Chairman mentioned in his address at the Annual Meetings in Berlin, the Fund will be faced with challenges ahead, and the Board must continue its search for satisfactory solutions to the remaining problems. The Chairman has characterized this challenge as five objectives or "areas of ambition," about which the Board should concern itself over the next five years. The current work program allows the Board to respond in those areas, in line with the guidance of our Governors at the Interim Committee meeting. My authorities share these concerns, and are willing to work cooperatively along the lines the Chairman has proposed in the work program, which is however extremely ambitious when seen in the context of duties and obligations of Directors representing countries with difficulties like those in my constituency. We should thus try efficiently to establish priorities. For example, we should avoid the bunching of meetings, reallocate staff resources in line with our priorities, and give appropriate consideration to policy matters, as necessary.

My authorities attach great importance to the medium-term scenarios in the world economic outlook, to the implications of economic interactions, and to the need to make effective use of macroeconomic and structural indicators in the exercise of surveillance. The work program is very challenging in that respect. I hope that the studies mentioned in the work program will provide some insights on how the process of surveillance could be made more effective, and on how the functioning of the international monetary system could be improved in a multi-lateral framework. My authorities believe these are crucial topics, and central to the institution's role. Accordingly, the background material on the World Economic Outlook, the European Monetary System, the functioning of the international monetary system, and the question of a nominal anchor for the system will be essential in supporting the discussion of the principles of surveillance, which is to be held in 1990. It will be very

useful, in the meantime, to have the proposed exploratory paper on the principles of Fund surveillance--which we strongly endorse--placed on the agenda in early 1989.

I wonder whether a way could be found to make the Board's regular sessions on exchange rate developments more effective. In those meetings, we follow up the reaction of various exchange markets to economic indicators in the main industrial nations; but how useful are such discussions in the context of the effects of the conclusions we draw on our policy advice to the authorities in industrial countries? Can those discussions, together with the world economic outlook discussions and the Article IV consultations with industrial nations, be considered as supporting, in the right direction, the exercise of policy coordination and the Managing Director's participation in the Group of Seven? I am very concerned about the Board's usefulness in assisting the Fund in attaining one of its main goals--strengthening its role as a multilateral institution in the surveillance process.

In respect to the world economic outlook, the Managing Director mentioned that there would be an investigation of the conditions for the return of developing countries to stronger and broader-based growth, and a supplementary note on the relationship between debt and economic performance. However, it is not clear to me whether the intention of the analysis is to assess the effect of the debt overhang on growth and adjustment; if it is not, it ought to be. In this regard, I wonder whether this fundamental aspect, which should be fully taken into account in program design, does not deserve more than a supplementary note in the world economic outlook. This issue has not been examined in depth in the papers on program design for adjustment and growth that the Board has discussed.

I also note the inclusion in the work program of a seminar discussion on the design of growth-oriented adjustment programs and a review of the application of conditionality, based on case studies of the effectiveness of those programs. These are very important topics. Enhancing the design of growth-oriented adjustment programs is one of the main questions to be addressed, especially in the case of highly indebted countries. That discussion might be a good opportunity to look into the effect of the debt overhang on adjustment and growth.

The question of who will be in charge of the study reviewing the effectiveness of Fund programs through case studies is of crucial importance. I have emphasized that the responsibility for this review should be in the hands of a unit other than the Exchange and Trade Relations Department or one of the area departments; it should be the responsibility of an independent unit, as in the World Bank. The main responsibilities of that

unit would be to assess and audit policy implementation in country programs designed by the area departments and the Exchange and Trade Relations Department. That issue should be seriously addressed.

We attach special importance to the paper on Bank-Fund collaboration, in view of the recent developments in the relationship between the two institutions that have affected some member countries. A thorough review of the issue is essential and should take place as soon as possible. It is necessary to assess not only the effectiveness of such collaboration, but also the coordination between the institutions and other private and government agencies. Considering the current discouraging situation in this respect, we feel that too much time and effort is being wasted; member countries deserve the most effective support possible, by both the Fund and the Bank.

At present, the management of the debt situation is certainly one of the most important topics the Board must deal with, especially the effectiveness of the Fund's catalytic function. Although there have been different approaches in searching for solutions to the debt problem, only one initiative has been implemented so far--one which responds to the consensus of industrial nations; it has been widely recognized, however, that this strategy has serious drawbacks. More recently, in the Trade Bill approved by the U.S. Congress, there is a special mention of the debt problem, and the possibility of creating a debt facility within the Fund. I wonder whether the Fund has received any requests for information pursuant to that suggestion, or whether the staff is preparing some background material for future reference. In that connection, in one of the Board discussions on the debt issue, two Directors proposed the creation of a "debt adjustment facility." Notwithstanding the lack of political support for that initiative, the staff agreed to evaluate the proposals. I wonder when that evaluation will be forthcoming.

In the meantime, if there is no political consensus for an approach other than the present one, the main contribution the Fund could offer toward the debt strategy would be a thorough analysis of the current financial situation and financing requirements of the 17 heavily indebted countries, to determine their real needs in the medium term. By the same token, the proposal in the work program to look at the analytical basis for comparing and assessing the characteristics of different menu approaches is of the utmost importance. That paper should have priority, and should be discussed, if possible, in January or early February 1989. I hope that by the time the paper on managing the debt situation is discussed on March 20, a different political consensus will have emerged from the main

industrial countries regarding the debt problem. We also attach special importance to the discussion of the Japanese proposal.

We can go along with the Chairman's suggestion regarding the Ninth General Review of Quotas. However, given the importance of this issue for this and other chairs, we would greatly appreciate it if the discussion of the paper could be held on November 25, instead of November 18. This would give my authorities some extra time to study this complex issue. For the same reason, I would like to propose the postponement of the discussion on the review of enhanced surveillance until November 21, November 23, or another date agreeable to the Executive Board.

We have noted with great interest the set of papers dealing with the SDR and international liquidity. While it is true that the Interim Committee has encouraged us to continue to evaluate this topic, I wonder whether the most important aspect at the present juncture--perhaps more important than further study--might be the role the Chairman can play in convincing the authorities of industrial nations to reach a political consensus in support of an SDR allocation.

Mr. Prader made the following statement:

Since we share the Chairman's view that the major operational features of the Fund have been thoroughly reviewed, and that crucial problem areas such as the debt and overdues issues have been addressed, we can agree with the suggested direction of our future work--with emphasis on a timely completion of the work on major issues such as the quota review and on the design and implementation of strong Fund programs. Nevertheless, it is evident from this work program that, despite our satisfaction with the progress made on major issues and the reaffirmation of the Fund's policies at the Annual Meeting in Berlin, much remains to be done.

I should like to comment on the well-accepted idea that what we need now is strong programs. In the Chairman's statement on the work program, he stressed the support which the Governors have given to the central and catalytic role of the Fund. However, in the very context of our focus on strong programs, it may be useful to review, systematically and in the light of some conspicuous recent events, the institutional and economic constraints on achieving these objectives and work priorities. An example which Mr. Ortiz pointed out in his farewell speech is the pressure exerted on the Fund's catalytic role by its exposure. Mr. Ortiz has raised some doubts as to whether, under such conditions, it is still possible to define the concept of the Fund's catalytic function in the traditional way.

It is also clear that a new concept of the catalytic role of the Fund would affect assessments of the urgency and size of the Ninth Quota Review. The dilemma faced by the Fund in carrying out that role as a result of its exposure could well form part of our semiannual deliberations on the management of the debt situation. For maximum effectiveness, such a discussion should be based on a separate staff paper, especially since so far there has been no Fund study of this delicate issue. But I could also consent to such a discussion taking place in the framework of an examination of problems of implementing the Fund's basic macroeconomic conditionality, as proposed by Mrs. Ploix.

There is a need to counter somehow the widespread misperceptions of the Fund, which did not spring forth fully formed only at Berlin, but have existed for quite some time in many quarters. Severe criticism of the Fund has clearly become a widespread phenomenon over which extremist groups have no monopoly. On the contrary, such criticism has found voice even among mainstream parties and personalities in such diverse places as the Swiss parliament (during the debate on Switzerland's contribution to the enhanced structural adjustment facility) and the U.S. financial press, where the Fund is attacked rather often for not managing to enforce reform and adjustment in return for the provision of Fund credits.

Although the Managing Director has already done much to improve the image of the Fund, the Board should perhaps also devote some time to thinking about what measures might change the Fund's image, or at least narrow the gulf which exists between what this institution is actually doing, and how its activities are perceived by much of the world.

Like other Directors, I see a certain inconsistency in the organization of the agenda, which is likely to lead to a bunching of Board meetings prior to the Interim Committee meeting, and the desire for an even flow of work. Aside from the rearrangement of the dates set for the discussion of various topics, the bunching problem could be greatly eased by combining the discussion of issues which, thematically and logically, can be treated more effectively under a single heading. Here, too, I am in agreement with Mrs. Ploix's request for a better clustering of closely related topics. Another important way of relieving the Board's work load might be to reschedule the Article IV consultations.

We welcome the inclusion of the discussion of structural indicators on the agenda, in line with our earlier support expressed at the previous discussion of the work program (EBM/88/75 and EBM/88/76, 5/13/88).

Concerning the Ninth Quota Review, we would strongly urge the staff to submit a list and timetable for the discussion of those essential technical issues that remain to be settled before a political decision can be made by the Governors. Otherwise, we run the risk of playing the game of those who would seek to hamper the Fund's decision-making processes by loading ever more topics onto the agenda. In this sense, my suggestions would be very similar to Mrs. Ploix's demand for an operational approach.

We warmly welcome the proposed review of the current procedures for dealing with individual cases of overdue financial obligations to the Fund. Even though the practice of regular inspections of countries in arrears may serve to exert some pressure on them, it is not clear whether these exercises, repetitious in nature as they are, will not ultimately be harder on the Board than on the countries themselves, besides adding to the impression that the Fund is a helpless institution, effectively at the mercy of its debtors.

Mrs. Ploix is correct to ask for a comprehensive discussion of Fund-Bank collaboration in the near future, in the light of recent extremely worrisome events. I would also like to support Mr. Yamazaki's proposal that this issue be placed on the Interim Committee's agenda.

Concerning Mrs. Filardo's proposal for establishing a special auditing unit to review the Fund's policies, although I have some doubts about the usefulness of this approach, I am nonetheless open to a serious discussion of it.

Mr. Feldman made the following statement:

The present discussion on the work program is very welcome, and we are in broad agreement with the Chairman's proposals. The work program puts into perspective the different tasks the Board will have in the period ahead, and it allows it to determine priorities in its future work.

We attach great importance to the inclusion of alternative medium-term scenarios in the world economic outlook. They will illustrate the interaction of policies among the major countries, and the effects of these policies on the developing world. In this regard, it could be useful to consider in the world economic outlook the implications of two recent papers by the staffs of the Fund and the World Bank on the effects of trade policies in industrial countries on the developing countries.

Even if policy coordination involves basically the major industrial countries, the aggregate effects of the actions of those countries on the rest of the world should not be ignored. Consideration of those effects would be in the interest not only of developing countries, but of the industrial countries as well, because of the additional feedback of the effects on developing countries to the industrial countries. Further research by the Fund staff on this subject, which would be welcome, would imply giving due consideration to the concerns raised by some countries in the last Interim Committee meeting, that the concept of policy coordination should be extended to include developing countries.

One of the most important tasks for the coming months will be the completion of the work on the Ninth General Review of Quotas before the agreed deadline of April 30, 1989. Since several issues related to the size and distribution of the quota increase remain to be discussed, we would like to suggest that the staff propose a complete schedule for the coming discussions, to help the Board avoid the overloading of meetings in the weeks before the deadline set for submitting the draft resolution to the Board of Governors, and to have a clear view of the different steps to be covered.

Discussions on important issues in the management of the debt situation are scheduled for the period ahead, and we certainly welcome the papers that the staff is planning on those issues. However, because we feel that it would be useful if the discussion on the debt situation could become an input of the world economic outlook, we would appreciate it if the debt situation could be considered sometime before the world economic outlook. Any further development of the menu approach would contribute to the strengthening of the present debt strategy. The Board might also consider at some stage a paper the staff might prepare in which it presents its views on some alternative approaches to the debt strategy. These approaches, without necessarily denying the relevance of market-oriented solutions, might place the emphasis on a more active role for creditors, governments, and multilateral institutions in the search for overcoming the debt overhang. In this regard, the Research Department has recently issued several extremely interesting working papers on the subject, showing, among other aspects of the debt problem, the advantages and disadvantages of nonmarket approaches to debt relief. The Executive Board could benefit greatly from these analyses, if they could be condensed into a single staff document. Another set of contrasting approaches that could be included in that paper appears, for example, in the United Nations Conference on Trade and Development's recently issued Trade and Development Report 1988, and Chapter 4--Debt and Development--in particular. Like Mrs. Filardo,

we would like to see the proposals on the creation of an international debt facility incorporated into the analysis.

Our forthcoming discussion on the proposal made by Japan on parallel lending in support of the indebted countries is indeed very welcome. We should be prepared for a further analysis of this issue in the coming period.

With respect to overdue financial obligations to the Fund, we cannot but agree with the proposed work on the modalities of a cooperative approach to resolve the problem of arrears. Regarding the effect of overdue financial obligations on the Fund's financial position, we note that the next review of the decision on burden sharing is scheduled for November 23. We also note the staff's comment on the need for subsequent reviews whenever the floor for the remuneration coefficient is reached. These periodic reviews of the decision are very time-consuming, and a more flexible approach is called for, so that such discussions can be avoided.

We can go along with the timing proposed for the Board's informal recess, and with the idea of holding Board meetings only on the usual weekdays.

Mr. Finaish made the following statement:

We welcome the Chairman's statement and broadly agree with the content, priorities, and scheduling of the proposed work program. We also appreciate the effort that has been made to make the program manageable and, as the Chairman has put it, compatible with an even flow of work and the avoidance of a bunching of meetings in the weeks preceding the spring ministerial meetings. In addition, we view as useful the opportunity to review the program and discuss work priorities in January, and we welcome the intention to promote the strengthening and reallocation of staff resources as may be necessitated by current and prospective needs.

We believe that a primary focus of the world economic outlook should be on the interlinkages of policies in the major industrial countries, and on the substantial impact of these policies and economic performance on the developing world. In this connection, and in view of the important role which structural policies in the industrial countries play in shaping global economic developments and performance, including, of course, in the industrial countries themselves, we welcome the intention to extend the analysis contained in the recent annex to the world economic outlook paper on structural indicators. In this regard, and as I indicated during our most recent world economic outlook discussion, notwithstanding the difficulties

associated with constructing structural indicators, there is indeed scope for improving the coverage of, and increasing the emphasis on, structural issues in the industrial countries. Such an improvement could be effected through, inter alia, providing analyses of how to address the distributional and social concerns which sometimes motivate the implementation of inefficient policies, while promoting, or at least minimizing hindrance to, an efficient allocation of resources, domestically as well as globally.

We welcome the intention to issue supplementary notes that will include in-depth analyses of such important issues as the relationship between debt and economic performance, as well as developments in the world oil markets. Indeed, the more recent developments in the oil markets, and their adverse impact on a wide spectrum of the Fund membership, require that the subject be comprehensively covered and thoroughly analyzed. In particular, it is hoped that the work on those developments will, in addition to providing an analysis of the supply and demand conditions, address the implications for, first, the debt-servicing capacity of the indebted oil exporting countries; second, the economic performance in non-oil countries through trade, remittances, and aid flows; and third, the growth prospects of the world economy. The analysis of the supply and demand conditions should cover, inter alia, the impact of industrial and trade policies affording protection to alternative energy sectors in the industrial countries on the global demand for oil. We fully recognize that a comprehensive treatment and follow-up of the issues involved will require directing greater staff resources than has previously been allocated to this area since the weakening of international oil prices began earlier in this decade. Nevertheless, we feel that the effects of the recent developments in the world oil markets are so widespread, and of such a magnitude, that greater attention by the Fund to them is merited. Indeed, for a significant number of countries, the implications of these developments are as large as those associated with the so-called oil shocks of the 1970s. We therefore believe that greater attention to the subject is warranted, and could take the form of--among others--reviving interest in studies by area departments of the regional implications of the decline in oil prices.

We agree that we should move expeditiously in order to complete the work on the Ninth General Review of Quotas in time for the next Interim Committee meeting and the deadline of April 30, 1989. As that deadline draws nearer, we will have to be more vigilant in our efforts to determine the various parameters of the Review, if it is to lead in the time that remains to the much hoped-for increase in the size of the Fund.

The planned work on the management of the debt situation appears to be broadly satisfactory. Let me hasten to add, however, that while the continued emphasis in that work on countries most heavily indebted to commercial banks is understandable, it would be useful if some analysis were included of the issues that pertain to the debt situation of a number of middle-income debtor countries--which are unable to benefit from the type of relief provided to low-income countries, or from the menu items available in the case of commercial debt--and whose debt, although mostly owed to official creditors, is not necessarily concessional. Indeed, some of these countries are quite heavily indebted, and are facing payments difficulties no less severe than those of commercial debtors. Also, we hope that the forthcoming papers on the debt situation will address adequately the recently published G-10 capital adequacy rules, particularly in relation to the failure of those rules to provide for adequate differentiation and changes in creditworthiness, and the severe deficiency of the two-tier risk assessment system on which they are based.

We should endeavor to carry out the mandate of the Interim Committee to keep the functioning of the international monetary system under review, and to identify ways for improving its functioning in a multilateral framework. We therefore welcome the planned work in this area. The work being done elsewhere on the subject reflects the widespread interest in this important matter, but it should not be seen as a substitute for the Fund's role. In keeping with its mandate, it is important that the Fund, as the international cooperative institution responsible for the well-being of the international monetary system, always be in the forefront of all efforts intended to ensure the system's resilience and smooth functioning.

We welcome the planned work on the role of the SDR and international liquidity. On the issue of an SDR allocation, we can understand the rationale behind the Managing Director's proposal to carry out informal discussions with Executive Directors. We can also understand why many continue to see merit in holding a formal Board discussion on this question, and therefore feel that the possibility of holding such a discussion should not be ruled out.

We welcome the forthcoming Board discussion on the nature and modalities of lending by Japan in parallel with Fund arrangements.

Regarding overdue financial obligations, we are somewhat unclear as to whether or not there will be, apart from the discussion of the six-monthly report on overdues, and possibly the paper on suspension of membership, a main Board discussion of the approach presented in the Board's report to the Interim

Committee. If no such discussion is planned, is it correct to assume that the effort in this area in the period ahead, and at least up to the time of the next Interim Committee meeting, will be solely in the sphere of putting the intensified collaborative framework to work in individual cases?

We view as useful the planned work on the question of the extent and coordination of policy-based balance of payments assistance to low-income countries by multilateral and bilateral aid agencies.

The proposed program of work regarding the review of conditionality and program design is broadly appropriate, keeping in mind that an evaluation of these issues is--as it should be--an ongoing and constantly evolving process. This process can benefit from research in areas with implications for program design. We therefore welcome the staff study providing a synopsis of results of recent research papers, and the planned discussion of that paper in a seminar in February 1989. While the reviews of conditionality are concerned with the Fund's policies and the practices that govern the use of its resources in the upper credit tranches, it would be useful, in the context of the forthcoming review, if the Fund's policy on the use of its resources in the first credit tranche could also be reviewed.

Notwithstanding the effort to revitalize the extended Fund facility, it is our impression that progress toward greater use of that facility is expected to be rather slow. It is hoped that the expected exploratory discussion concerning a number of programs that could be supported by the extended Fund facility will lead to greater use of that facility.

We welcome the continuing research effort on economic issues in Islamic societies. These issues are of interest to a large segment of the Fund's membership and hence, by definition and extension, to the Fund itself. The Fund's efforts in this regard are well received in many member countries, including in this constituency.

I believe that we can all agree that one factor which has hindered--or at least has not helped--the Fund in carrying out its responsibilities in recent years has been its negative image in many member countries. I am not speaking particularly of young demonstrators in Berlin, or about people who know little about the Fund's work; rather, this negative view is held by a significant number of officials, the media, as well as by people who are supposed to be well informed about the Fund. The implications of such negative perceptions are quite clear not only for the effectiveness of the Fund's role in countries where it is directly involved, through Fund-supported programs, but also

in countries which may avoid direct involvement with the Fund because of the connotations associated with such involvement. Clearly, the question of image and perceptions cannot be divorced from the substantive issues of the soundness of Fund advice, and the cost of adjustment and distribution of its burden. As we know, the Fund has looked at these issues in the past, and the Board had the opportunity to discuss a number of staff papers on program design, the impact on poverty and growth, and related matters. I believe that such introspection on the part of the Fund is useful and should continue, since no one can claim a perpetual monopoly on truth, particularly in economics. But in addition to this, I believe that it would also be useful for the Board to address explicitly the question of the Fund's image. Obviously, this issue has not been absent from Directors' minds or the mind of management, and, as we all know, resources are being devoted to enhancing the Fund's image. But a serious and frank discussion in the Board may improve our understanding of the problem, and thus, of the best approach to deal with it. To my knowledge, no such discussion has taken place, certainly not in recent years, in any case. One possibility would be for the External Relations Department to prepare a paper on the subject that would be discussed in a formal Board meeting, but I would also be open to other views on the most appropriate format to address the issue.

I support the proposal on the timing of the Board recess.

Mr. Rye made the following statement:

As usual, the work program is a full one, but it undoubtedly reflects the various challenges currently confronting the Fund. A reasonable balance has been struck between the need to address immediate policy issues and the ongoing systemic responsibilities of the Fund, and in particular, the need to maintain an adequate research program with regard to the latter.

However, this heavy program clearly requires that priorities be set, so that the resources of the Board and the staff can be focused in the most important areas. Apart from the regular work (such as the world economic outlook, Article IV consultations, and the review of the application of conditionality), my authorities would put priority in the period ahead on the completion of the Ninth General Review of Quotas and on fleshing out the practical details and application of the Board's report on overdue obligations. Concerning the Ninth General Review of Quotas, my authorities note that a program for the remaining work has not been clearly set out, as some Directors had requested in earlier quota discussions--including this chair. If the Board is to report to the Interim Committee prior to the spring meetings, and complete the review by

end-April 1989, work will need to progress quickly--whereas at present we seem to be going over and over the same ground.

We support the proposed further work on structural policies in industrial countries in the context of the world economic outlook.

We would give a lower priority in the period until the spring meetings to the work on the principles of Fund surveillance, and some of the SDR-related issues. We welcome the use of informal soundings of support for an allocation of SDRs, instead of a Board paper and Board discussion.

Given the recent concerns over the effectiveness of Fund-Bank collaboration, we would support a higher priority for the paper proposed to be issued in May 1989. In any case, this is an issue which could be touched upon in the review of conditionality in March, so that Directors could give the staff some guidance and preliminary comments on the areas the main paper should cover. It would also be useful if the review could analyze in some detail the reasons for the failure of Fund programs in recent years--whether because of policy failures, unforeseen external developments, or inadequate financing assurances at the outset of the program--and what lessons can be drawn from that analysis. It could also be useful to have an assessment of whether the compensatory and contingency financing facility could have prevented any of these programs from going off track.

The proposed preliminary Board consideration of the Administrative and Capital Budgets for financial year 1990 that is tentatively scheduled for mid-January 1989 as a means of allowing Directors greater input into setting budget priorities, is a welcome response to earlier concerns expressed by the Board, including this chair. We would suggest that Board consideration would be aided if Department Heads could be present to respond to specific questions and concerns.

We support the proposal to avoid the bunching of Board meetings in the weeks preceding ministerial meetings. That clearly would be of benefit in relation to the Board's work load--but, as my authorities point out, there are also benefits in relation to the work load in national capitals.

As regards the agenda for the spring Interim Committee meeting, my authorities see the issues as similar to those in Berlin, namely, the world economic outlook, the Ninth General Review of Quotas, the debt situation, overdue obligations, and SDRs and international liquidity, although the last is not a

high priority from the point of view of this chair. However, like Mr. Yamazaki, I wonder whether a discussion of Fund-Bank collaboration would be in order by then.

Finally, I am always willing to accommodate my colleagues in changes of timing of Board discussions, and I would not stand in the way of the change proposed by Mrs. Ploix if the Board as a whole were happy with it. However, for the sake of completing the Secretary's records, neither of the alternative dates proposed by Mrs. Ploix for the burden-sharing discussion would be convenient to me, since I expect to be in the Philippines around November 16 and in the South Pacific around December 7.

Mr. Dallara stated that he welcomed the work program, which his authorities basically supported. His authorities also wished to express their appreciation for the obvious effort that had been made by the Managing Director, the Secretary, and others to shape a work program which attempted to avoid the bunching of issues for discussion that had occurred in the past. Whether that attempt would prove successful remained to be seen; of course, much depended in that regard on the Board itself.

On the world economic outlook, Mr. Dallara continued, he welcomed the staff paper on structural policies in industrial countries. Given the attention which the industrial countries that had attended the Toronto summit had given to that subject, it should be a focus of the world economic outlook. It could also be a focus, on an experimental basis, of certain staff reports for Article IV consultations. His authorities would be prepared to consider structural policies in the context of Article IV consultation reports, if other major industrial countries--and perhaps some major developing countries without Fund-supported programs--were willing to join in such an experiment. Consideration of structural policies from a global economic viewpoint was particularly critical at the current juncture, because the shortcomings of policies that were too closely focused on macroeconomic issues in major industrial countries were perhaps more evident than they had been in the past. The need for complementary strong structural policy action in the United States, as well as elsewhere, was also perhaps more obvious.

On a related issue, he hoped that the staff would continue to give close attention in the world economic outlook to the important role of the newly industrializing economies in the global adjustment process, Mr. Dallara noted.

In the next world economic outlook paper, Mr. Dallara went on, he would welcome a short note--perhaps a separate note or a cover note--on the current procedures for public release of material in the world economic outlook, for background information for the press, and related activities. His authorities were not certain that there were any problems with the procedures, but the search by reporters for headlines, sometimes

when there simply were none, engendered inevitable problems. His authorities had always supported the publication of Fund analysis. However, given the slight misreporting of the analysis in the last world economic outlook, an examination of the publication procedures, to determine whether modifications were needed, might be in order. He supported Mr. Finaish's suggestion that more attention be given, either separately or in a broader context, to developments in oil markets.

On the Ninth General Review of Quotas, Mr. Dallara continued, he would urge the staff to prepare a paper addressing important issues related to the role of the Fund in the 1990s--in the first half of the decade in particular. His authorities would underscore the importance of a greater consensus in the Board on the characteristics of that role. One of the difficult issues that would need to be addressed in that context was how to preserve the revolving character of the Fund, while at the same time ensuring that the Fund would continue to play its catalytic role in the debt strategy. He would welcome an early discussion of that issue and related issues, which were important as the Board strove to move ahead on the quota issue. He would be happy to elaborate separately on some further thoughts of his authorities on those issues.

In that light, Mr. Dallara commented, he was not certain of the efficacy of debating in the next few weeks such issues as ad hoc increases in quotas, or the data base to be used to help determine quota increases. His authorities were not in a position to reach a definitive judgment on those issues, but would be willing to participate in further discussions if it was in the interest of other Board members. His authorities continued to attach importance to making real progress in addressing the arrears problem, in order to provide a sounder basis for consideration of an increase in quotas.

His authorities continued to attach a high priority to the debt situation, Mr. Dallara stressed. The papers which were prepared in advance of the last meeting of the Interim Committee and the Annual Meetings had been very useful. He welcomed the planned papers for the next round of discussions on the debt problem.

In relation to a question which had been raised by Mrs. Filardo about the status of the proposal of the United States for the establishment of an international debt facility, he wished to point out that although the legislative branch would perhaps like to represent the U.S. Government in international organizations, it did not, Mr. Dallara remarked. The executive branch was charged with deciding how legislation which had been signed into law was to be implemented. That was a difficult task, because the legislative history of every important piece of legislation was examined carefully, and the debates concerning it on the floors of the House and the Senate and in the committees were scrutinized, so that the faithful and complete implementation of the legislation, once it had been signed into law, could be assured. In that regard, the Trade Act--passed earlier in 1988--had required that the Fund be requested to examine various aspects of the debt problem. Thus, he welcomed the work on the

debt problem that was already planned, because a formal request for such work was thus made unnecessary. He would keep the Fund informed of any requests which legislation might require his authorities to place before the management and the Board.

It would be important for the Board to examine policy coordination in relation to the functioning of the international monetary system, Mr. Dallara continued. Policy coordination should be addressed not only in the context of the world economic outlook, as was currently envisaged in the work program, but on its own, from the perspective of ways to strengthen further the policy coordination process, encompassing some of the ideas that had been put forward by his chair, as well as by others. Former U.S. Treasury Secretary Baker had made a proposal--which had been reiterated by Secretary Brady--concerning the development of monitoring ranges for various indicators--other than the exchange rate.

His authorities were not certain as to what was envisaged in the discussion of the monetary system and nominal anchors for the system, Mr. Dallara noted. At present, his authorities would not assign particular priority to looking at those questions, although they would welcome the clarification of those matters. His authorities supported the idea of scrutinizing the principles of surveillance early in the following year, as was mentioned as a possibility in the work program.

He recognized that many other Directors had a greater interest in the question of the SDR and international liquidity than he did, Mr. Dallara remarked. His authorities would not at present place a very high priority on the papers which were contemplated in that area, however.

His authorities continued to attach a high priority to overdue financial obligations, Mr. Dallara observed. He looked forward to the implementation of the broad strategy that the Board had developed and that the Interim Committee had generally endorsed. His authorities had not placed any particular emphasis on the timing of a follow-up paper on the modalities of that strategy. However, perhaps Mr. Finaish's question went to the heart of the problem. Mr. Finaish might interpret the absence of any further discussion of the overall strategy as an indication that the Fund would move ahead in areas of intensified collaboration, but not in other areas. From his point of view, it was critical that the Fund move ahead, on a case-by-case basis, with respect to all three components of the cooperative strategy, namely, preventive action, collaborative action, and remedial measures, where appropriate. If such an approach was not considered by his colleagues to be feasible or appropriate on a case-by-case basis, the matter would need to be addressed urgently. His authorities felt strongly that the Fund could not realistically hope to make progress in dealing with the arrears problem if it were to move ahead with only one component of the arrears strategy. He welcomed the proposed paper on suspension of membership, and hoped that the staff would also examine related issues.

His authorities were prepared to handle the question of access limits under the policy on enlarged access to Fund resources on a lapse of time basis in the coming months, if that would be helpful, Mr. Dallara related, based on the Managing Director's understanding that the matter would be reviewed in the light of the outcome of the next Quota Review, and before the entering into effect of any increase in quotas.

His chair was pleased to see that the staff was studying the role of balance of payments assistance from multilateral and bilateral sources in Fund-supported programs, Mr. Dallara remarked. He hoped that in the study--which his authorities hoped could come forward before the next Interim Committee meeting--distinctions could be made between cash-type balance of payments assistance and other forms of aid which were more directly tied to trade and other activities.

His authorities would welcome an introspective effort to assess the success of Fund conditionality and of Fund-supported programs, as Mr. Rye and other Directors had suggested, Mr. Dallara went on. Such an effort might be elaborated in a related policy paper, or integrated into work which was already contemplated, in order to avoid a multiplicity of papers. Further progress was needed in considering how to adapt performance criteria to better reflect in program design the balance of macro-economic and structural reforms which had emerged in the Fund's institutional priorities. The Fund's performance criteria and review clauses still lagged behind the overall direction which the Fund was taking in that regard.

He joined Mr. Yamazaki and others in welcoming an earlier discussion of Fund-Bank collaboration than was currently contemplated, Mr. Dallara stated. A short note which would at least raise questions on some of the more difficult and complex issues in Fund-Bank collaboration might be the basis for a Board discussion, perhaps before the end of the year. It was clear that there were urgent and critical problems in that area that both the Fund and the Bank needed to examine, especially in cases in which there were arrears outstanding to one of the institutions; if those problems were not addressed, the Fund would encounter increasing difficulties in individual cases. He would ask his colleague at the World Bank to make a similar suggestion to the World Bank's management.

On administrative matters, Mr. Dallara continued, he looked forward to discussing issues related to the headquarters building. He hoped that the first discussion could focus on staffing issues, which he believed would provide critical background information for consideration of financing possibilities. Also, he welcomed the material which had already been circulated on those matters.

His authorities were somewhat concerned by the wording in the Managing Director's statement relating to staff compensation, Mr. Dallara commented. Perhaps his authorities had read too much into it, but the Joint Compensation Committee, chaired by Mr. Grosche, had struggled with those complex issues for years, and a report had finally been prepared in

late summer 1988. His authorities had shared with the managements of the Fund and the Bank drafts of various chapters of the report at various stages in the process. He had understood that after a period of two to three months, during which management would assess the final report and determine its views, the matter would be brought to the Board for decisions. At present, it appeared that although a discussion would be held in the next few weeks, it would only set the stage for subsequent discussions. He wished to stress the importance of bringing the issue to the Board in toto at an early stage, to provide a basis for decisions which he hoped could be factored into the next round of salary adjustments, so that the matter could be dispensed with in a way that had not been possible for the last few years. He would have serious difficulties with the notion of separating the components of the report and dealing with them on a piecemeal basis.

His authorities were prepared to change the date for the discussion of burden sharing, Mr. Dallara noted, although he agreed with Mrs. Ploix that changes in the agenda should be avoided as much as possible in the period ahead. He sensed that that was clearly the Chairman's intention. His authorities would strongly prefer not to join the burden sharing discussion to that on the midyear review of the Fund's income position, as burden sharing deserved separate and focused debate and discussion in the Board. In that connection, he had understood that the principles of burden sharing would be reviewed in the autumn of 1988, in light of progress made in dealing with the arrears problem, an understanding which he believed--but was not sure--was consistent with the summing up of the last discussion of the principles of burden sharing. The staff paper addressed the financial issues in a narrow fashion, but gave very little sense of the views of the staff and management on the broader issues. Admittedly, burden sharing was not an easy subject to describe adequately, but an additional short staff note on burden sharing in the broader context of progress in dealing with arrears might be helpful as background for the planned discussion.

Although his authorities did not have the strong interest in the various studies being planned on fiscal, banking, and related policies in Islamic societies that others did, Mr. Dallara commented, he welcomed that work. If the studies were particularly useful in certain member countries, he could support their inclusion in the work program.

He had been intrigued and attracted by Mr. Finaish's suggestion that the Board undertake a separate discussion of the Fund's image, Mr. Dallara concluded. The previous Managing Director of the Fund, Jacques de Larosière, had held the view that the Fund had to act as the whipping boy for some member countries, and that the decision-making process in those countries was thereby facilitated. Mr. de Larosière had also shied away from any systematic effort to improve the Fund's public image. He himself had shared those views, but he was no longer sure whether he still did. He wondered whether a paper for the Board's review by the External Relations Department outlining possible mechanisms and modalities for addressing the problem of the Fund's image might not be

appropriate. Apart from the substantive aspects on which the Board should focus, it might also need to attend to the Fund's image as an institution, as the Managing Director had done on a personal basis.

The Chairman stated that the question of the Fund's image could be discussed informally at his luncheon with Directors in the following week. He had reservations about making a special effort to change the Fund's image. In his view, it would be more effective if the Fund's image could be improved by the influence of successful Fund programs, which were seen to be so by others. In the meantime, of course, the Fund's image would suffer, but Directors would have to be patient. He had devoted considerable attention to the problem of the Fund's image in the past only because it had been his impression that the image in itself was an obstacle in some countries to the Fund's assistance, and he believed that his efforts had served to alleviate the problem.

Mr. Finaish commented that although Directors had discussed the matter of the Fund's image informally upon occasion, it had never been discussed systematically, and no paper on the subject had ever been prepared for the Board's consideration, even though the Fund was devoting resources to it. In his view, some type of central forum for discussion might be useful, although he had an open mind as to the details.

The Chairman stated that he would appreciate the guidance of Directors before directing the staff to prepare a paper on the question of the Fund's image.

Mr. Toé made the following statement:

The proposed work program is comprehensive and reflects a heavy work load. We therefore need to set our priorities if we are to avoid a bunching of meetings, and if we are to limit Board meetings to the usual three weekdays. I appreciate management's efforts to ensure an even flow of work during the period covered by the work program, and to avoid the scheduling of meetings on Tuesdays and Thursdays. I am in broad agreement with the thrust of the work program, and I can generally go along with the tentative schedule of meetings. I will highlight a number of priority areas to which staff resources and Board time should be directed.

The issues for which deadlines have been set for the completion of Board consideration or recommendations should be given the highest priority. The Ninth General Review of Quotas, the modalities of the cooperative approach in resolving the problem of arrears to the Fund, the reviews of the structural adjustment and the enhanced structural adjustment facilities, the ESAF Trust, and the world economic outlook exercise, fall within this category.

Since the Executive Board is to report to the Interim Committee on the outcome of its discussions on the Ninth General Review of Quotas before the spring meeting, I find it appropriate that we have a first round of discussions on November 18, as planned. Further discussions on the issue should be accelerated to enable us to meet the April 30 deadline. While I welcome the fact that those discussions will cover issues pertaining to members with relatively small Fund quotas, I am of the view that issues pertaining to the quotas of members eligible to use the resources of the structural adjustment facility should be covered as well.

We would caution against adopting remedial or punitive measures to address the problem of overdue obligations to the Fund, as they could turn out to be counterproductive. Thus, a discussion in the coming six-month period of the paper on suspension of membership in the Fund under the Articles of Agreement would not be an efficient allocation of the Board's time. The modalities of the cooperative approach, for which we expressed our support, should be developed in a way that will ensure that enough flexibility is embodied in them to deal with a wide spectrum of cases of countries willing to cooperate with the Fund to find a solution to their overdue obligations problem.

We have no difficulty with the proposed staff papers on the world economic outlook and the timing for their consideration. In particular, we welcome the forthcoming staff study on the relationship between debt and economic performance, and the paper on developments in the world oil markets.

Other issues that should command special attention in the period ahead are the functioning of the international monetary system, the management of the debt situation, the SDR and international liquidity, and lending from the Export-Import Bank of Japan in parallel with Fund arrangements. I note that a paper has already been circulated on the last issue (EBS/88/221, 10/26/88). I was heartened to read that the resources contemplated under the proposed arrangement will be additional to the financing that would be provided to countries undertaking Fund-supported adjustment programs. In view of the likely impact of such lending on the flow of resources to middle-income countries, I find that the early discussion of that paper is well advised, so that the lending program can become operational as soon as possible.

The forthcoming paper on key issues in the functioning of the international monetary system should be comprehensive enough to touch on all the relevant issues regarding the functioning of the system, and to make suggestions on how best to improve it. The paper should also deal with the full implications of these

suggestions for the functioning of the system. As the Interim Committee recognized in its communiqué following its Berlin meeting, efforts to identify ways to improve the functioning of the international monetary system should be carried out in a multilateral framework.

I share the view that an exploratory paper on the implications for the Board's work of a possible revision of the principles of surveillance would be useful. I can therefore go along with the suggestion for an early consideration of such a paper.

I endorse the views expressed by Mrs. Filardo on the management of the debt situation.

The papers that are in the pipeline on the SDR and international liquidity are welcome. Discussions of these papers should help to keep alive the issue of an SDR allocation, and, more generally, enhance the role of the SDR in the international monetary system. We hope that these discussions will also lead to changes in the perception of some member countries as to the usefulness of that reserve asset.

I welcome the Chairman's intention to provide the Board at an early stage with a preliminary paper on the budgetary outlook for financial year 1990, to enable us to set budget priorities and assess the implications of budget choices on the level of the rate of charge on the use of Fund resources.

I concur with the Chairman's suggestion to review the work program for the period after the spring meeting of the Interim Committee during our discussion of the provisional agenda for that meeting.

The program of research and staff studies seems to be well suited to the numerous issues covered in the work program, and I have no difficulty supporting it. I also support the proposed dates for the informal Board recess.

Mr. Cassell stated that he welcomed the Chairman's statement on the work program and the current discussion. He looked forward to returning to the subject of the work program in late January 1989, to assess the program in the period immediately before the spring meetings of the Interim and Development Committees, in the same way that the work program had been discussed in the period immediately before the Annual Meeting in Berlin. Given the Board's heavy work load of the past summer, he feared that some of the items the Board had discussed might not have been given the thorough consideration which they deserved. The Board should not risk that happening again. He realized that, as the Secretary had often stated, the Board's discussions were like a great balloon, in that if they

were compressed in one area they would come up in another. Nevertheless, perhaps that balloon might be inflated a bit earlier, especially in the current work program, where it was evident that the agenda was heavier toward the end of the period than toward the beginning. He wondered whether there were constraints on how and when the staff produced papers for the Board's review, as it seemed that the Annual Meetings acted as a climax to the production of papers, after which the number of papers declined. Although he accepted the need for the spring ministerial meetings in 1989, there might come a time in the future when those meetings could be dispensed with, especially if the Fund's strategies for the functioning of the international monetary system proved as successful as they deserved to be.

In the near term, the agenda still appeared to be rather uneven, Mr. Cassell commented. Only eight country items had been scheduled firmly for the month of November, and there did not appear to be any for December or January. Perhaps tentative dates--at least--for other country matters might be agreed, which would help Directors to prepare for meetings and smooth their own work flow. Although he was happy to see that the Article IV consultation for the United Kingdom had been scheduled for March 3, that was the only country item that had been scheduled after the end of November, and he hoped that the Secretary would be able to agree, at least tentatively, mutually convenient times for other Article IV consultation discussions.

He was also pleased to note that the Board did not intend to meet on Tuesdays and Thursdays, Mr. Cassell continued. However, he noted that on some days of the week, the agenda was quite heavy, with a light agenda for the remaining days of the week. He wondered whether that was the ideal way of arranging things. His chair would prefer two or three moderately heavy Board days in one week, rather than concentrating most of the week's business into one day.

He generally agreed with the substantive points in the Chairman's work program, Mr. Cassell remarked. However, he regretted that the proposed paper on applying the intensified collaborative approach for countries in arrears was not scheduled to appear before the end of January 1989. The Board had received a firm mandate from the Interim Committee for that work, and he strongly urged that the date for discussion of the paper be brought forward. The current indications that a support group for Guyana was about to be formed was but one indication of the urgency of that subject. The rapid preparation of the paper on the Japanese proposals for financing in parallel with Fund arrangements was certainly welcome, and showed that such discussions could be brought forward quickly. Although there might be staff constraints on advancing the paper on arrears, he hoped that ways could be found with respect to deployment of staff resources to ensure that the paper was prepared quickly, given the importance of the subject.

The question of Fund-Bank collaboration was of great importance, Mr. Cassell commented. Along those lines, he believed that it would be

important to hold a discussion on the lessons that had been learned from the case of Honduras, even though Honduras had cleared its arrears, while the memory of the case was fresh in the minds of Executive Directors. He had been surprised that the proposed paper on the modalities of Fund-Bank collaboration was not to be discussed before May 1989--after its transmittal to the Group of Ten. It would surely be more helpful to discuss the paper by January 1989, so that the Deputies of the Group of Ten could take the Board's views into account.

Given the importance of the Paris Club in the overall financing for many debtor countries, Mr. Cassell went on, he was concerned that the proposed paper on official balance of payments assistance for low-income countries and Fund-supported programs, which had originally been expected for 1988, had now been pushed so far into the future. In his view, that paper should be discussed before the meeting of the Interim Committee, at the latest. In fact, that paper might be considered at the same time as the review of the structural adjustment facility and enhanced structural adjustment facility that was scheduled for March 13, at which the mobilization of aid resources would also be discussed.

As a number of Directors had observed, including Mr. Finaish and Mr. Dallara, he believed that the question of the Fund's image could usefully be addressed, Mr. Cassell noted.

There were some areas in the work program which he considered to be of less priority, Mr. Cassell commented. That was not to say that he regarded any of the topics in the work program as unimportant, but rather that at present, further work on those topics was less likely to lead to new understandings than would be the case with some others. Like Mr. Rye and Mr. Dallara, he would accord a lower priority to the papers on the SDR, and he hoped that some of the papers which had been proposed could be combined and brought into sharper focus before they were taken forward as separate topics. Regarding the proposed survey of the role of the SDR in reserve management, it had been his understanding that when that survey had been proposed in July 1987, it had not received great support, and that it had been agreed that consultations with the offices of Executive Directors would be undertaken before proceeding further. He hoped that that had not been lost sight of. His chair had also expressed its reservations in the past on the further development of structural indicators, not because there were any doubts about the importance of the analysis to the structure of an economy, but because work on that subject was proceeding elsewhere, notably at the Organization for Economic Cooperation and Development. His chair believed that the devotion of additional scarce Fund resources to increasing the sophistication of indicators was unlikely to be justified, given the other calls being made on those resources.

It was obviously necessary to carry forward the work on the Ninth General Review of Quotas before the next meeting of the Interim Committee, Mr. Cassell observed, but he joined Mr. Dallara in saying that it would be useful to structure that work in the context of a paper examining the role of the Fund in the 1990s.

He looked forward to an early discussion of the upcoming paper on the staffing of Executive Directors' offices, Mr. Cassell continued. The Executive Board would also need to look at the recommendations of the Joint Bank-Fund Committee on Staff Compensation Issues. The management of the World Bank was already clearly taking the discussion forward, and had apparently reached the view that the report's recommendations might not be implemented by May 1989. In his view, if the Fund Board did not have a discussion of the subject, even of a preliminary nature, until December 1988, its options might be constrained by May 1989.

He welcomed the Chairman's proposal to advance the period of the informal Board recess in the summer, Mr. Cassell concluded. That action would hopefully serve to relieve the congestion in the work load in the period between the informal Board recess and the Annual Meetings. Of course, Directors would need to be careful that they did not expand the work program to fill the time available that was thus created, even if those days were to be limited, as the Chairman had indicated, to Mondays, Wednesdays, and Fridays.

Mr. Zecchini, addressing Mr. Cassell's observation about the April meeting of the Interim Committee, stated that he wondered whether there was any particular reason why Mr. Cassell had focused on the possibility of eliminating the April ministerial meeting rather than the September meeting. In September, the Ministers had the opportunity to consult with each other in the context of the Annual Meeting, making the ministerial meetings of the Interim and Development Committees less necessary, in his view. In addition, the April ministerial meetings offered the Governors the first opportunity to draw conclusions about the end of the previous economic year.

The Chairman commented that he believed that what lay behind Mr. Cassell's thoughts was his conviction that the Fund should not be a creature of habit, and that there was a need to adapt to changing circumstances. The Fund should be ready to suggest the elimination of a meeting if it was no longer required.

Mrs. Filardo commented that she believed that it would be an embarrassment to the Honduran authorities if the Board were to hold a discussion on Honduras even if the authorities were making all possible efforts to settle their arrears to the Fund. A separate discussion of the Honduran case was thus not appropriate, in her view. Rather, if the intent was to analyze the lessons from the Honduran case, the analysis should be incorporated into the paper on Bank-Fund collaboration. The case of Honduras illustrated the fact that the relationship between a Fund member and the Fund could deteriorate because of the relationship between the Bank and the Fund.

The Chairman stated that he shared the Board's view about the need to have an early discussion on Fund-Bank collaboration. The sooner the relationship between the Fund and the Bank was clarified, the better. He intended to circulate soon, for information, a paper prepared by the two

staffs on the present modalities of Fund-Bank collaboration that would be transmitted to the Group of Ten for its deliberation. In addition, the Fund staff was preparing for Board deliberation on a paper on Issues in Collaboration with the World Bank that would focus on the appropriate division of labor between the two institutions.

Mr. Cassell explained that he did not wish to propose anything with respect to the timing of the Annual Meetings, but merely wished to stress that, given the unevenness of the work flow, the timing of the meeting of the Interim Committee might be reconsidered. He recognized that there might prove to be good reasons why the timing for both the Annual Meeting and the Interim Committee meeting needed to be maintained. For that matter, there were reasons why September or October had been chosen for the timing of the Annual Meetings. In the case of the United Kingdom, that timing had been quite convenient, because it fitted in very well with the parliamentary calendar. That being said, he agreed that it might not be appropriate at present to change suddenly the meetings' calendar.

With respect to Mrs. Filardo's point, Mr. Cassell went on, the case of Honduras did indeed raise a number of interesting issues about the relationship that existed between the Fund and the Bank. Even though he had noted the case of Honduras, the discussion he was thinking about would not concern Honduras per se, but would focus on Fund-Bank collaboration itself. He did not wish to press the point, but if other Directors felt as he did, it might be useful to look at the question of collaboration while the specific instance of Honduras was still fresh in the memories of the Executive Directors. In his view, the question of whether or not a payment had been made raised a number of other questions and difficulties that needed to be resolved, especially as it was possible that the same issues would arise on future occasions.

Responding to a question from the Chairman, Mr. Cassell stated that the circulation to the Board by the end of December of the paper prepared for the Group of Ten on issues in Fund-Bank collaboration would satisfy--at least in part--his concerns about addressing the issues that had arisen in the Honduran case. Nevertheless, he wondered whether other Directors felt that something might be gained from addressing the issues that had arisen in that case separately.

Mr. Dallara stated that he shared Mr. Cassell's interest in returning to the problems that had been evident in the Honduran case, as well as in other cases of arrears. Although the question of arrears was not the only area impinging upon Bank-Fund collaboration, it was probably the area under the most serious strain at present. He agreed that it might be embarrassing to the member if the Board were to address the matter of the member's overdues once those overdues had been eliminated; the Executive Director for the member would obviously prefer that such a discussion not be held. It might therefore be useful if a paper were to be prepared outlining the background for the case before it was discussed in the Board. The matter might also usefully be brought up at the informal luncheon the Managing Director had suggested.

Mr. Posthumus stated that he supported Mr. Cassell. In his view, if a discussion of the Honduran case were postponed for too long, the specifics would be buried and forgotten. It was important to stress that the aim of the discussion would not be to criticize Honduras--assuming that there was nothing to criticize Honduras for. The problem was that in the Honduran case matters had been very unclear. He had been very unsatisfied by the great deal of time it had taken, when the matter was first discussed, before the facts could be pulled clearly together. In his view, there was no reason why the case could not be discussed openly by the Board, especially as the focus of the discussion would not be on Honduras but on the procedures that were involved.

The Chairman suggested that the case of Honduras be discussed during the informal luncheon he would schedule in the following week. The management was strongly in favor of an early clarification of the issues that had arisen not only in the case of Honduras, but in that of Guyana, and in other arrears cases as well.

Mr. El Kogali made the following statement:

I join other Directors in commending the Chairman for the comprehensiveness of the work program.

In the context of the world economic outlook, I welcome the proposed paper addressing structural policies in industrial countries, and the staff study on the relationship between debt and economic performance. The treatment of the economic performance and prospects of low-income countries should be analyzed in more depth. I would also like to know from the staff the feasibility of providing more analytical information on the group of debt-distressed low-income countries, perhaps in an appendix to the world economic outlook paper.

Regarding the Ninth Review of Quotas, we would expect that the paper on small quota countries would also address the question of the quotas of low-income countries, and extend the analysis to cover the implications of the increase in quotas for their voting power, along the lines suggested in the Managing Director's concluding remarks at the Committee of the Whole on the Review of Quotas Meeting 88/9, on September 2, 1988.

I am encouraged that debt relief for low-income countries and the initiatives flowing from the Toronto summit will be among the issues addressed during the coming period. I expect that the staff paper on this matter will address the adequacy of the terms and conditions of such initiatives, how they are being implemented, and their compatibility with the prevailing economic, financial, and social circumstances of heavily indebted low-income countries. Our initial impression from the first cases is not entirely encouraging.

I welcome the Chairman's suggestion to consult informally with Directors about an SDR allocation. However, to keep alive the issue of a resumption of SDR allocations during the remainder of the fifth basic period, it may be important for the Executive Board to consider a paper on a new SDR allocation.

The Chairman's suggestion to begin implementing the collaborative strategy endorsed by the Interim Committee to address the problem of overdue obligations through resolving individual cases of arrears is most welcome. I hope that our steps in this regard will be pragmatic, and guided by a true collaborative spirit among all partners. We welcome the recent appointment of a special advisor, and look forward to working with him in a way that will facilitate the process of resolving overdues and make our approach more productive. Overemphasis on punitive actions--such as the threat of suspension of membership--would not appear to be very helpful at this stage.

I welcome Japan's intention to lend in parallel with Fund arrangements, and look forward to the proposed staff paper on the modalities for such lending. We are sure that the Japanese authorities will be mindful of the needs and circumstances of low-income countries eligible to borrow under the enhanced structural adjustment facility, and of the need to resolve the debt problem.

I am glad to note that a number of arrangements under the enhanced structural adjustment facility will be brought to the Board for approval in the coming months. I should reiterate our concerns about the rather slow pace of utilization of resources in that facility, and would urge that the necessary steps be taken to address this problem. One question I would like to be considered is whether we are not overloading programs under that facility with too many requirements, thus making it inaccessible to the majority of eligible members. Coordination of official balance of payments assistance in support of growth-oriented adjustment programs implemented by low-income countries is no doubt an issue that deserves consideration as well; however, our emphasis on policy-based assistance should not be at the expense of traditional development aid, which still has a key role to play in these countries. I would therefore request that the proposed staff paper also explore the importance of development aid and the implications of such aid for economic growth in these countries in the context of growth-oriented adjustment.

It is high time that program design gave due attention to how structural measures and reforms interact and influence the behavior of financial variables. The questions of time lags and the appropriate sequence of policy implementation also need to be addressed, and a staff study in that regard would be most

welcome. Such a study should also consider the policies of individual countries in a regional context, particularly in the case of landlocked countries.

I welcome the staff studies on fiscal policy in Islamic societies and on market-oriented reforms in centrally planned economies, and look forward to the issuance of those papers. I have no problem with the suggestion to advance the timing of the informal Board recess by one week, to permit a smoother flow of work.

Mr. Fernando made the following statement:

We congratulate the Chairman for a well-organized work program, reflecting the concerns of the Board and of the Interim and Development Committees. The work load is heavy, but as the Chairman has rightly pointed out, it is necessary to avoid bunching of Board meetings preceding the meetings of the ministerial committees. This is important in order to ensure that the quality of the Board's work is at least maintained.

My observations are not in the nature of comments on the work program, with which I generally agree, but are intended mainly to highlight the issues that deserve the Board's consideration in the coming months.

We welcome the proposals made in the work program regarding the world economic outlook. However, we should reflect on whether focusing mainly on the reduction of payments imbalances among industrial countries in the medium-term scenarios will really be sufficient. The economic performance of the major industrial countries in recent years has remained far too steady at moderate levels. While such a steady performance should be appreciated, it does not appear to have contributed significantly to robust and broad-based growth in developing countries. Potential output growth rates have been low in the 1980s, and in some cases have declined from those in the previous two decades. It seems that a steady but modest growth performance is viewed as satisfactory, because inflation is not accelerating. Attempts to deal with the fears of a resurgence of inflation--to which the last world economic outlook referred--take the character chiefly of recessionary policies, which will give rise to an increase in interest rates, even if growth is thereby moderated. Such a stance would hurt the adjustment efforts of developing countries, especially of the heavily indebted ones. The question is how to improve growth performance in major industrial countries without causing inflation to accelerate and without raising interest rates. The staff paper on structural policies should be cast in that light, and supplemented by an analysis of other policy configurations, which is important

because of the large impact that the strong economic performance of industrial countries would have on the international economy.

We have no difficulty with Mrs. Filardo's suggestion to hold the Board discussion on the Ninth General Review of Quotas on November 25, instead of on November 18. We look forward to the discussion on the staff analysis and review of the technical note presented by this chair on the criteria for determining quotas, as a very close look at the technical questions is merited. The proposal for a paper on small quotas is also welcome. For similar reasons, the Board should look into the needs of low-income countries eligible for arrangements under the structural adjustment facility in considering the size and distribution of quotas.

The proposal for discussion of a paper on the role of the Fund in management of the debt situation is a useful one. The discussion could be held earlier than the suggested date of March 20, and the issue could be placed on the agenda of the Interim Committee meeting in April 1989. The paper should not be a purely factual exercise, but should discuss pointedly the possible promotional--as well as catalytic--role of the Fund in managing the debt situation. It should deal with such questions as how to encourage commercial banks to provide refinancing or new money--apart from rescheduling debt-- and whether and to what extent the banks' perceptions could be influenced by changes in tax and regulatory regimes in creditor countries.

I have no problem with the proposals on the functioning of the international monetary system. We could support suggestions for an exploratory paper on the review of the principles of Fund surveillance, which could, however, be taken up in the Board after the Interim Committee meeting.

The question of an allocation of SDRs should be discussed after consideration of a background paper which takes the Ninth General Review of Quotas into account. Discussion of an allocation could be scheduled on the day the paper on the international monetary system and the SDR is discussed. The question of an SDR allocation should also be on the Interim Committee's agenda.

There was a reference to the further development of remedial measures to deal with overdue financial obligations to the Fund. The Interim Committee communiqué did not make any reference to remedial measures, and the emphasis, as I see it, was on intensified collaboration. The communiqué underscores the need for a practical approach to the problem, and I therefore wonder whether remedial measures should be developed further at this stage.

The topic of Fund-Bank collaboration is important enough by itself to warrant a staff paper for Board discussion. The timing of that discussion will obviously depend on many factors, but given the emphasis placed on collaboration by many Directors, an acceleration of work on such a paper appears merited. However, we have some difficulty in understanding what can be achieved by a Board discussion of the paper being prepared by the staff at the request of the Group of Ten on present practices in Fund-Bank collaboration. This could be an information paper, but we are not clear as to whether it merits a Board discussion. The Board's views should be formed on the basis of the efforts and initiatives of Directors, and it may be inappropriate for the Board's views to be conveyed to the Group of Ten, because if those views are not accepted, the Board's credibility may be at risk.

I can generally support the other proposals in the work program. However, the status of the proposal made in July to study the contribution of monetary aggregates as indicators of monetary policy is not clear. Work on that study needs to be accelerated, in view of the emphasis which is being placed on financial reforms in most Fund-supported programs. Also, it is worthwhile to consider the possibility of providing concessionality in the use of the Fund's ordinary resources by low-income countries which are not users of the structural adjustment facility or the enhanced structural adjustment facility, with a view to reducing the debt-servicing burden of these countries. Attention also needs to be paid to reducing the burden of the increases in the Fund's administrative and capital expenditures on the users of Fund credit.

The Chairman commented that he had sensed in Mr. Fernando's presentation a subtle indication that with respect to ways the Fund could address the arrears problem, the concept of remedial action was in opposition to the concept of practicality. In his view, remedial action was not necessarily opposed to practicality. In dealing with arrears on a case-by-case basis, it was wise to show the carrot, but it was also sometimes wise to show the stick. For example, after the Liberian case had been carefully reviewed, it had been his impression that showing the stick was in order. The authorities would have preferred the carrot, but by being shown the stick they were spurred to action in the succeeding weeks. The case-by-case approach to the settlement of arrears remained of central importance, linked to the collaborative strategy that had been outlined in the Board's report to the Interim Committee. He hoped that the Fund would gain more experience through the work of the special advisor on overdue obligations to the Fund. He would welcome further discussions with Executive Directors on arrears in the coming weeks.

Mr. Posthumus stated that he supported the work program and its priorities. He also concurred with Mrs. Ploix's remarks, especially

concerning the world economic outlook and the international monetary system, and work on structural policies and indicators, which he noted had been supported by many other Directors as well. He also concurred with her remarks about conditionality, program design, and Fund-Bank collaboration. He had hoped that Mrs. Ploix would address the question of the Fund's role in international cooperation between major industrial countries. Perhaps that issue could be addressed at a later time.

The Chairman's statement on the work program mentioned that the implications of increased financial integration, recent regulatory changes, and efforts to ensure the stability of the financial system would be examined in the context of the management of the debt situation, Mr. Posthumus observed. He wished to stress, however, that those issues were not important only because of the debt situation. Financial integration and the liberalization of capital controls had caused the unprecedented growth of capital flows over the past few years. New problems thus confronted the monetary authorities--a fact that was generally recognized--but problems of new dimensions also confronted the operation of the international monetary system--or, perhaps to put it more accurately, "nonsystem." He was not proposing new studies in that regard, but wished to draw attention to the fact that those issues had a wider significance.

In the Chairman's statement on work priorities after the 1988 Annual Meetings (EBM/88/109, 7/20/88), much attention had been devoted to monetary policy research, Mr. Posthumus recalled. Although he had not found that topic explicitly mentioned in paragraph 13 of the current work program statement, he assumed that work on the matter was continuing. In his view, it was contributions that the Fund could make in that field, as well as in the others that had been mentioned in that paragraph, that were of vital importance for the Fund's future role, and upon which its prominence would depend. The influence of an international organization was founded on the intellectual contributions it made, and which were a necessary, although perhaps not a sufficient, condition for the organization's survival. In the context of the Fund, the monetary studies it conducted were necessary even at times when not all Fund members were supportive of, or interested in, the Fund's monetary role. He proposed that preliminary papers on key issues in the functioning of the international monetary system and on nominal anchors for the international monetary system be addressed before the principles of Fund surveillance were reviewed.

The informal sessions on exchange rate developments were becoming more meaningful, Mr. Posthumus commented, and he hoped that they would contribute to the Managing Director's input into the G-7 countries' coordination process. He hoped and expected that the Managing Director would present reports to the Board on his contributions to the meetings of the Group of Seven, because he believed that the Board should discuss the results of those meetings. Such discussions would hurt no one, and benefit everyone.

With respect to Fund-Bank collaboration, Mr. Posthumus continued, he had noted that in the Managing Director's statement on work priorities after the 1988 Annual Meetings, it had been stated that the principles that guided the division of labor between the Fund and the Bank were well established. Such an assessment might have been too complacent, and he saw many problems coming, as did many others. If either the Fund or the Bank no longer supported the existing division of labor, the Managing Director's task of collaborating with the Bank clearly became impossible. He agreed with Mrs. Ploix that the Fund should be careful itself not to cross the thin line separating the distinct responsibilities of the institutions. While the Board should not panic about collaboration, it was clear that the issue should be discussed shortly.

Before the last Interim Committee meeting, discussions of important papers had been postponed repeatedly, and at short notice, Mr. Posthumus noted, which he had found most inconvenient, especially as he had to arrange his own work program, which included some traveling. The least that the Board could do would be to stick to the Secretary's schedule of meetings, and to attempt not to make those schedules too tentative. The question of the scheduling of meetings should be addressed at the time the tentative schedules appeared. In that respect, the present was the time to suggest changes in the schedule. One proposed change that had already been mentioned by Mrs. Ploix and Mr. Rye was the scheduling of the discussion of the paper on the principles of burden sharing. Perhaps, as a compromise, that paper could be scheduled for December 12. Other issues related to the Treasurer's Department were already scheduled for that day, and it seemed appropriate to concentrate such matters on the same day.

The Chairman, responding to Mr. Posthumus's observation about Fund-Bank collaboration, said that he persisted in believing that, at least as far as the Fund was concerned, the division of responsibilities was clear. Concerning the question of monetary studies, Mr. Posthumus's assumption was correct. A new work program did not cancel the previous ones. The studies Mr. Posthumus had referred to were indeed in the pipeline.

Mr. Ismael made the following statement:

I would like to thank the Chairman for the comprehensive statement on the work program. This ambitious work program is in accordance with the guidance given to the Board by the Interim and Development Committees at their last meetings in Berlin. I can therefore fully endorse it.

I fully share the Managing Director's view that having completed the review of the Fund's facilities and conditionality, we now need strong programs to help member countries achieve satisfactory growth and to grow out of their debt. I also agree that the Fund should strengthen its surveillance function. In this regard, I would like to reiterate this chair's preference for the adoption of procedures for a quarterly review of developments, to monitor, on the basis of a

limited set of indicators, progress in reducing the large imbalances between some of the major industrial countries. Supplementary consultation procedures should be used when these quarterly reviews suggest that progress in reducing those imbalances is inadequate.

On the world economic outlook, I am pleased that the medium-term scenarios will include a study on the conditions necessary for a return to stronger and more broad-based growth in the developing countries. This study, in my view, is very important, since, as the Interim Committee stressed, current and projected growth in many developing countries remains inadequate, despite economic expansion in the industrial world. I also welcome a further study on structural policy in the industrial countries, which could contribute to the enhancement of structural reforms in these countries. A staff study on the relationship between debt and economic performance is also welcome. I hope that this study will provide a better understanding of the benefits, as well as the costs, of external debt to the development process in a medium- and long-term perspective.

I fully support the proposed program on the Ninth General Review of Quotas. In order to allow us to complete the work on this important subject before the spring meeting of the Interim Committee and to meet the deadline of April 30, 1989, it is important that the discussions not be endlessly derailed into quasi-technical/operational issues, as the real issues are, in essence, political.

I welcome the proposed papers on the management of the debt situation that are being prepared for Board discussions in the coming months. It is important that these papers include analyses on ways to encourage banks to provide adequate financing, and to broaden the menu approach, so as to increase financial flows, as the Interim Committee has stressed.

With regard to SDR-related matters, this chair continues to support the Managing Director's proposal to carry out informal consultations with Executive Directors to ascertain whether or not there is broad support to assign a greater role to the SDR, and for SDR allocations. In the absence of such political will and support, it will be more productive to devote the Fund's limited resources and staff time to areas where more tangible progress could be achieved.

On the area departments' work program, I am somewhat surprised to note that the number of requests for use of the Fund's resources under the enhanced structural adjustment facility is much smaller than under the structural adjustment facility. I would therefore like to hear what the likely

factors are that are inhibiting eligible members from requesting arrangements under the enhanced structural adjustment facility.

I have no difficulty with the proposed period of the informal Board recess for 1989, and I welcome the intention to limit Board meetings to Mondays, Wednesdays, and Fridays.

Mr. Grosche stated that he could go along with the Chairman's proposals on the current work program's priorities. He welcomed the fact that an expansion of the world economic outlook exercise was anticipated, so as to include an analysis of structural policies. As macroeconomic policies in several countries were already quite overburdened in trying to achieve the objectives that the international community had set for them, it was only appropriate that the Fund investigate other areas of policy, clearly including structural policies. He agreed with Mrs. Ploix that repeating the work of the Organization for Economic Cooperation and Development on structural indicators should be avoided.

He shared Mr. Finaish's assessment of the importance of developments in international oil markets, Mr. Grosche continued, and he was glad to note from the Chairman's statement that the Fund would study that issue in the context of the world economic outlook exercise.

He would attach higher priority to the work on the world economic outlook, to policy coordination, to Fund surveillance, and to the Fund's role in overcoming the debt problem than to SDR issues, including the notion of a nominal anchor for the international monetary system, Mr. Grosche observed. He was not sure what was meant by a nominal anchor for the system. Like Mr. Dallara, he attached high priority to the problem of overdue financial obligations to the Fund, and he agreed that, in the context of the case-by-case approach, all three elements of the strategy that had been included in the report to the Interim Committee should be pursued.

In the light of recent experiences with Bank-Fund collaboration, Mr. Grosche noted, he was glad that the issue would be addressed earlier than had been suggested in the proposed work program.

Concerning the possible topics for inclusion on the agenda of the spring meeting of the Interim Committee, he expected that that meeting would be largely devoted to the issue of the Ninth General Review of Quotas, Mr. Grosche remarked. He trusted and hoped that those deliberations would not be hampered by a lack of progress on resolving cases of overdue financial obligations to the Fund--certainly another issue which would need to be included on the Interim Committee's agenda.

He agreed with other Directors, and particularly with Mr. Finaish, about the need to address the Fund's image, and looked forward to the informal exchange of views that the Chairman had suggested, Mr. Grosche noted.

He looked forward to the management's response to the report of the Joint Bank-Fund Committee on Staff Compensation Issues, Mr. Grosche went on. Like Mr. Dallara, he believed that the issue of staff compensation should be dealt with as expeditiously as possible, so that the issue could be dispensed with. It would not be useful for the Board to dissect the puzzling and difficult issues presented in the report in too much detail in the context of an Executive Board meeting. He believed that the Fund should aim at basing the next general review of staff salaries on a revised Kafka system, even though Bank-Fund collaboration might cause some problems in that regard. He hoped that the World Bank's management would be able to comment on the report as swiftly as the Fund's management had been able to.

On procedural matters, Mr. Grosche continued, he welcomed the intention to avoid bunching Board meetings in the weeks immediately preceding the Interim Committee meeting. However, the agenda for November and December 1988 appeared light, as some other Directors had observed, and perhaps more attention could have been given to spreading the work load more evenly in that period. He recognized that the meetings of the Interim Committee and the Annual Meetings were a milestone not only for the Board, but for the staff as well, and that it was difficult for the staff to submit reports for Article IV consultations in time for early discussion after those meetings. Nevertheless, the possibility of spreading missions more evenly over the year might be investigated.

He believed that every reasonable attempt should be made to discuss closely related topics in a more clustered way, as Mrs. Ploix had suggested, so that the interventions of Directors would not be repetitive, and so that they would not be forced to address issues again and again once substantive consideration of them had been accomplished, Mr. Grosche commented. For example, the papers on SDR-related issues, and on the functioning of the international monetary system, could usefully be clustered, and it might also be possible to combine the Board's discussion of the staff report on the periodic review of the application of conditionality with the seminar discussion on the results of recent research papers and the implications for program design.

He supported the Chairman's suggestion for the timing of the informal Board recess in the summer of 1989, Mr. Grosche stated.

Given the large number of country items that Directors would need to address in the coming months, and the time constraints all Directors were subject to, it was only appropriate that Directors be free to make only short interventions--or even to abstain from making interventions at all, Mr. Grosche concluded. That should not be taken as a sign of indifference to the problems of the country being discussed, but rather as a sign of the Director's agreement with the staff report.

Mr. Ovi made the following statement:

The work program appears to be balanced and well structured. We recognize that efforts have been made to avoid a bunching of items in the period leading up to the next Interim Committee meeting, although the agenda of policy items in March remains heavy. Given that the Easter period falls just ahead of the next Interim Committee meeting, preparations in various capitals for that meeting will have to take place earlier than usual. We would, therefore, appreciate it if an effort could be made to have the last policy discussion on Friday, March 17, at the latest, rather than on Monday, March 20, as presently suggested. I tend to agree with other Directors, and with Mrs. Ploix in particular, that some further clustering of papers for Board discussion could rationalize the Board's work even further.

The Ninth General Review of Quotas has the highest priority, in our view. Although a number of special aspects still have to be discussed, we find that, basically, no further major studies are needed. Thus, we should aim at further discussions of the overall size and distribution of a quota increase soon, rather than as needed, as suggested in the program, so that the agreed deadline of April 30, 1989 can be respected.

It is imperative that the cooperative approach for the resolution of the problem of overdue financial obligations to the Fund be tested in practice. Many problems lie ahead, but they can only be tackled in the context of real cases. Also, we agree that the present procedure for dealing with reviews of countries in arrears will have to be changed, because far too much of the Board's time is spent discussing the wording of the draft decisions.

The recent discussions on World Bank sectoral loans to Argentina, as well as the cases of Honduras and Guyana, demonstrate an urgent need for improved collaboration between the Fund and the Bank. Accordingly, I very much welcome the Chairman's intention to bring the staff paper for the Group of Ten on the subject to the Board before the end of the year.

While I agree that there is a need for further discussion on the possible evolution of the debt strategy, the more technical paper on comparing and assessing characteristics of various menu items should not necessarily be brought to the Board for discussion; circulation of the paper for information might suffice.

I agree with the increasing emphasis in the world economic outlook on alternative medium-term scenarios. However, unlike several other Directors, I would put more emphasis on alternative fiscal policy assumptions than on structural issues.

Almost a year ago, several chairs, including my own, asked that work on international monetary issues be expedited. Despite that request, we find that what we consider to be very relevant papers will, at best, only be available to the Board at the time of the next Interim Committee meeting. In our view, these papers should be given higher priority, and the planned discussion on the European Monetary System ought to be a sub-item under the discussion of international monetary issues, or be for seminar discussion.

We agree with the intention to study the SDR and international liquidity questions in a broader context. In the same vein, a good case can be made for discussing the fairly large number of SDR papers at just one or two Board meetings.

With respect to the use of the bicyclic consultation procedure, the work program states that modest reductions in the work load of the Board and of the staff are being achieved. In fact, out of 64 planned Article IV consultation reports in the coming period, only 5 will be interim reports. We continue to believe that more substantial savings are both needed and possible. Many more countries should be moved to the bicyclic procedure. Also, departments should make sure that substantial savings are actually achieved in cases of interim consultations. I would like to suggest that the staff produce a paper for discussion sometime after the spring meeting of the Interim Committee on experience so far with the bicyclic consultation procedure, the obstacles that have been encountered, and the scope for savings that could be obtained for the authorities of member countries, the staff, and the Board.

In July I raised the issue of the membership of Angola. At that time, a number of statistical issues had not been resolved. I understand that another mission went to Angola in September, and that the remaining statistical issues were basically resolved. I hope that this means that we shall be able to move ahead fairly quickly with membership for Angola in the Fund.

Mr. Ghasimi made the following statement:

I would like to thank the Chairman for a very comprehensive and clear statement on the work program. We can give strong support in principle to the proposed program, which includes policy issues, matters related to area departments, and administrative and operational concerns, presented in a harmonious

and balanced manner, and reflecting very vividly the views of many Governors at the Annual Meeting in Berlin. The Chairman's efforts to keep the work program manageable for the Executive Board, the management, and the staff are also very much appreciated.

We look forward to receiving and studying the forthcoming staff papers on management of the debt situation, and the world economic outlook report and its supplementary notes and annexes. We also welcome the initiatives of the staff to study the debt strategy, the international monetary system, the design of adjustment programs, as well as the papers supporting the world economic outlook. Efforts to conduct research on economic issues in Islamic societies are commendable, and like Mr. Finaish and Mr. El Kogali, we look forward very much to studying the forthcoming paper on fiscal policy in Islamic societies, which will be of special interest to some Fund members. We also support the staff papers which are being prepared on increasing the usefulness of the SDR, and look forward to reviewing them. We certainly welcome and fully concur with the Chairman's intention to consult with Executive Directors concerning an SDR allocation before the April meeting of the Interim Committee. We are eager to study the forthcoming paper on developments in the world oil markets, and support Mr. Finaish's proposals.

The Chairman has rightly acknowledged that the proposed work program is compatible with the Board's desire to avoid the bunching of meetings in the period preceding the spring ministerial meetings. However, there seems to be a concentration of policy issues for discussion during March 1989. Almost eight policy papers are to be reviewed during this period, in addition to a similar number of reports for Article IV consultations, and possibly a number of requests for the use of Fund resources. At the end of March 1989 many Directors will be extremely busy arranging for the early April meetings of the Group of Twenty-Four and the Interim and Development Committees. We therefore wonder whether it would not be feasible to arrange for discussions of some of the policy papers in the month of February, when only a small number of policy issues are currently scheduled for review. We strongly support Mrs. Ploix's proposal for clustering the discussion of papers on closely related topics.

Mr. Dai made the following statement:

I am in general agreement with the work program, as it covers all the main issues along the lines of the recent Interim Committee communiqué. Furthermore, the meeting schedule appears to be more conducive to an even flow of work.

In general, it is obvious that developments in the performance of major industrial countries in the context of the world economic outlook exercise, and developments in the debt situation in the developing world, are the two most important issues of world concern at present, which therefore warrant the highest priority.

In order to complete the work on the Ninth General Review of Quotas in time for the next Interim Committee meeting and the April 30, 1989 deadline, it is necessary that a timetable be prepared outlining the progress that will be needed in the intervening period, since many aspects of the quota review are interrelated, and it would be better if all relevant topics were discussed in a logical sequence. Many issues regarding the present quota review are dependent on the size of the quota increases, and before an agreement on that topic is reached, lengthy discussions on other dependent issues might not be very fruitful. For example, I note that the first meeting on the quota review since the conclusion of the Annual Meeting in Berlin will be held on November 18, when three papers will be discussed, but it is not clear what the main focus of the discussions will be, or what conclusions are expected to be drawn from them. In my view, it would be more desirable if the problems we are aiming to resolve were explicitly pinpointed at each stage of the discussions. Since we have already had our general debate on various aspects of the quota review during a series of meetings on the subject this year, we should now concentrate our time and energy on specific substantive matters, so that solutions to the various issues can be obtained, one at a time, through serious discussions and negotiations.

With regard to the debt problem, I wonder whether, in addition to the routine review of developments, some targets or goals could be agreed which the Board could pursue over the period covered by the work program. For instance, after concluding the discussion on recent adaptations in the Fund's facilities--including the enhanced structural adjustment facility, the modified extended Fund facility, and the compensatory and contingency financing facility--could we have more concrete plans about how the Fund might assist members with strong and realistic programs and adequate outside financial support in their efforts to achieve satisfactory growth, and to grow out of debt? In addition, could we contemplate some programs to promote the realization of the Toronto summit initiative with regard to the debt problem of low-income countries? Furthermore, in the light of the guidance provided by the Interim Committee at its September 1988 meeting, could we work out a schedule to resolve one or two cases of overdue financial obligations of members, so that some encouraging progress could be reported to the Committee at its next meeting in April 1989?

I look forward with great interest to the issuance of the staff paper on a comparative analysis of market-oriented reforms in centrally planned economies, which is scheduled to be circulated after the spring 1989 meeting of the Interim Committee. I hope that this comparative study will take full account of the economic characteristics and stages of development of each country, as well as the different social and cultural backgrounds, which are also important elements, and which should not be ignored in the analysis. It appears that economic reform in centrally planned economies is a very complex and arduous task, which cannot be handled quickly or easily by an oversimplified model of liberalization or privatization. In my view, to be more useful and meaningful, a more comprehensive and in-depth analysis is needed, based on experiences and lessons learned in various countries. Such an analysis would benefit the members concerned, and would also contribute to the enrichment of the Fund's theoretical and practical experience.

I have no difficulty with the change in the dates of the informal Board recess next year.

The Chairman commented that in studying centrally planned economies, it would be essential that the staff take into account the nuances and differences in the cultural backgrounds of the countries concerned.

Mr. Nimatallah made the following statement:

The world economy is better managed today, and things are moving in the right direction, but it is now time to improve the quality of that management. Perhaps what Mr. Cassell intended when he referred to the possibility of fewer ministerial meetings is that the management of the world economy may eventually be improved to such an extent that we may not need as many ministerial meetings as we do now. The proposed work program has been very well prepared, and I am in general agreement with it.

Regarding my preliminary thoughts on the agenda for the spring Interim Committee meeting, we need to emphasize the issues that affect the international monetary system, and those that affect the functioning of the Fund.

With respect to the issues affecting the international monetary system, three basic problems need to be addressed. The first is the policy coordination process among the industrial countries. Surveillance of the coordination process needs to be emphasized, along with the role of structural adjustment in reducing global imbalances. What is more important, the issue of structural adjustment needs to be discussed separately from the discussion on the world economic outlook, in order to highlight its importance. Thus, we should assess the role of

structural adjustment in growth performance in both the developed and developing countries, including the impact of industrial policies in developed countries on developing countries. Some of my colleagues have hinted that the Fund should not concern itself with that issue, because the Organization for Economic Cooperation and Development (OECD) is already studying it, but leaving this crucial issue to that organization alone will not help the cause of structural adjustment; moreover, not all Fund members are represented in the OECD. Therefore, these issues should be considered in the Executive Board.

The second issue we need to face is the debt problem, where market-based solutions should be emphasized. The debt problem emerged in the market, so all those involved, including governments and multilateral institutions, should find ways to return the problem to the market for a solution.

While I welcome the various studies on the SDR which the Chairman has proposed in the work program, I feel that there is a need to focus on the demand for SDRs, rather than the supply, at this stage. With respect to the use of SDRs in exchange market interventions, perhaps a pool of resources--consisting of the five major currencies and the SDR--could be accumulated at the Fund, to be controlled by the group of five major industrial countries, so that the side effects of this intervention could be limited.

The quota issue and the problem of overdue obligations to the Fund need to be dealt with in the context of the Fund's financial position. I strongly support the strengthening of procedures to deal with arrears.

I look forward to the preliminary discussion on budgetary priorities for financial year 1990. I also welcome the review of Fund technical assistance, which will help to develop clear and appropriate criteria for Fund assistance to members and nonmembers. Criteria for Fund technical assistance should take into account the status of the recipients of such assistance, the participation of the recipient in the cost of assistance, the type and purpose of assistance, and the degree of involvement of Fund staff versus the panel of outside experts.

I also support Mr. Finaish's suggestion that the Fund give greater attention to oil market developments. Moreover, I welcome the investigation of issues arising in consultations with individual countries, such as those arising in centrally planned economies and in Islamic societies. Any greater knowledge of the workings of various economic systems will help the design and success of Fund-supported adjustment programs in countries with those systems. In this context, I look forward to the paper on fiscal policy in Islamic societies.

The Board's informal discussions on exchange market developments have been very helpful, and should continue. I would like to urge my colleagues to increase their participation in these discussions. I also support holding additional informal discussions between Directors and staff members regarding issues relating to the Fund's image, and on other intellectual matters that would improve the working of the Fund.

The Chairman remarked that he was certain that the staff would welcome intellectual exchanges with Executive Directors from time to time. He did not see any competition with the OECD on the development of structural indicators, as the Fund had clearly defined responsibilities in that regard. He believed that the more conceptual ideas that could be brought to the attention of the international community on that subject, the better.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/88/162 (11/2/88) and EBM/88/163 (11/4/88).

3. TRINIDAD AND TOBAGO - EXTENSION OF PERIOD OF TRANSITIONAL PROVISIONS OF PARAGRAPH 42 OF DECISION ESTABLISHING COMPENSATORY AND CONTINGENCY FINANCING FACILITY

The Fund decides, in the case of Trinidad and Tobago, to set aside the period set forth in paragraph 42 of the transitional provisions of the decision on the compensatory and contingency financing facility (Decision No. 8955-(88/126), adopted August 23, 1988), until November 18, 1988. (EBS/88/208, Sup. 1, 10/31/88)

Decision No. 9015-(88/163), adopted
November 2, 1988

4. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 88/29 and 88/30 are approved. (EBD/88/303, 10/27/88)

Adopted November 2, 1988

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/88/267 (11/1/88) and EBAP/88/268 (11/2/88) and by Advisors to Executive Directors as set forth in EBAP/88/268 (11/2/88) is approved.

APPROVED: May 16, 1989

LEO VAN HOUTVEN
Secretary