

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 88/164

3:00 p.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  
  
G. A. Posthumus  
C. R. Rye  
K. Yamazaki  
S. Zecchini

Alternate Executive Directors

C. S. Warner  
J. Prader  
  
M. A. Fernández Ordóñez  
A. M. Othman  
O. Kabbaj  
  
E. Kiriwat  
L. E. N. Fernando  
J. E. Zeas, Temporary  
W. N. Engert, Temporary  
N. Toé, Temporary  
I. A. Al-Assaf  
M. Fogelholm  
D. Marcel  
G. P. J. Hogeweg

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

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Also Present

Administration Department: H. J. O. Struckmeyer, Deputy Director; J. D. Huddleston, N. S. Jackson, P. J. McClellan, L. A. Wolfe. African Department: G. E. Gondwe, Deputy Director. Asian Department: S. P. O. Itam. European Department: M. Russo, Director. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; E. Brau, G. R. Kincaid. External Relations Department: C. S. Gardner, Deputy Director. Legal Department: R. H. Munzberg, Deputy General Counsel. Research Department: A. D. Crockett, Deputy Director; M. Goldstein, Deputy Director; R. C. Baban, P. Wickham. Secretary's Department: 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. Advisor to the Managing Director: W. A. Beveridge. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. B. Chatah, A. G. A. Faria, P. D. Péroz, P. Péterfalvy, A. Vasudevan. Assistants to Executive Directors: F. E. R. Alfiler, S. Appetiti, R. Comotto, S. K. Fayyad, S. Guribye, M. Hepp, K.-H. Kleine, K. Kpetigo, V. K. Malhotra, R. Marino, D. V. Nhien, S. Rouai, J.-P. Schoder, C. C. A. van den Berg.

1. WORK PROGRAM

The Executive Directors resumed from the previous meeting their consideration of the Chairman's statement on the work program until the time of the spring meeting of the Interim Committee. They also had before them a tentative schedule of Executive Board meetings (Secretary's Circular No. 88/105, Rev. 1, 11/3/88).

Mr. Zecchini made the following statement:

The work program presented by the Chairman seems to be well focused and comprehensive, and consequently, I can support it without significant changes. The subjects which should receive high priority in the Board's agenda for the coming months should be those that will be examined in the next meeting of the Interim Committee, and specifically, the review of quotas, the world economic outlook, and the debt strategy. The Ministers will be called on to have a substantive discussion of these subjects and will be called on also to guide the Fund on the most appropriate method of following up on them.

On the quota review, it is essential to complete the entire array of papers on all the aspects of a quota increase, including the payment of quota subscriptions, before the Interim Committee meets next April. With respect to the world economic outlook, the Fund should continue its work to sharpen the focus of economic indicators. Such indicators could also be applied on an experimental basis to Article IV consultations with major industrial countries. On the debt strategy, I would say that the analysis of the implications of various options in the menu approach would be not only extremely helpful, but necessary.

The other subjects presented in the work program seem to be less urgent, although they are equally important. In particular, the Fund should give new impetus to its work on the international monetary system under the four headings of the working of the exchange system, the SDR, surveillance over economic policies, and conditionality. Specifically, an exploratory paper on ways to upgrade or sharpen the existing principles of surveillance under Article IV could be prepared before April 1989, and could be discussed after the April 1989 Interim Committee meeting. In planning the Board discussions on those four groups of subjects, some economies of scale could be achieved by focusing on more than one paper on the same subject in the debate. However, we should not go too far in the direction of a concentration of debates, since we could run the risk of lacking depth and of losing sight of the issues many months after the debate.

One worrying aspect of the work program is the large number of country items that are to be discussed in the period

until next April, in connection with both Article IV consultations and the use of Fund resources. I believe that through a different programming of the country missions, as well as of Board discussions on issues of lesser priority, the scheduling of too many country items on the agenda in the two months preceding the next Interim Committee meeting could be avoided. The issue of Fund-Bank collaboration has become dramatically important very recently. A Board discussion of the paper being prepared on this subject by the Fund for the Group of Ten seems advisable. As to the program of studies and research, the issue of adjustment in centrally planned economies should be more thoroughly analyzed and debated in the Board.

An interesting aspect of the work program is the early programming of the work that is to be carried out before and after the April meeting of the Interim Committee. In this respect, I wish to stress the importance of discussing the agenda of the April meeting next January, and of planning well ahead the studies and research work for the following period.

I support the proposed change in the period of the Board recess. I can also support advancing from November 23 the date for discussing burden sharing, but I am not in favor of a postponement, because I will be absent from the Fund in the succeeding period.

I recently touched upon the question of boosting the image of the Fund when I spoke of an information gap, and in that vein I can go along with the Chairman's proposal for a preliminary exchange of views over luncheon in the coming days.

Mr. Engert stated that his authorities were in broad agreement with the work program. His authorities attached considerable importance to the expeditious completion of the Ninth General Review of Quotas, and they looked forward to the continuing work on the effectiveness of the Fund's catalytic role in the debt strategy. Early progress in resolving the problem of overdue financial obligations to the Fund was also desirable. His authorities supported the calls from some Directors, including Mr. Cassell, to attach more urgency to the discussion of the modalities of the approach for resolving overdue obligations that had been endorsed by the Interim Committee.

His authorities were also interested in the intensification of Bank-Fund collaboration, Mr. Engert noted, and they would prefer that a discussion of the modalities for such collaboration be held before the spring meeting of the Interim Committee. He welcomed the Chairman's earlier comments in that regard.

Although his authorities believed that work on the SDR should be continued, and merited further discussion, some of the subjects of the papers dealing with the SDR in the work program appeared to overlap, and efforts to economize on and streamline the work might be appropriate.

His authorities attached great importance to maintaining the Fund staff's good morale, Mr. Engert continued. The management therefore would need to pay due attention to the various administrative and staffing issues that would arise in the coming period. His authorities welcomed the efforts to reduce the bunching of meetings, and wished to reiterate their request for less frequent scheduling changes on the Executive Board's agenda. The clustering of related topics for Board discussion was also desirable. Finally, he wished to endorse Mr. Grosche's observation that the interventions of Directors at Board meetings might usefully be briefer, and that the efficiency of the Board's deliberations might thereby be improved.

Mr. Zeas stated that he appreciated and supported the Managing Director's objective of presenting the Board with a realistic work program, comprising only those items with the highest priority. Nevertheless, it appeared that the Board might still be attempting to cover more ground than staff resources or the amount of time that would be available for conscientious Board consideration would permit. If that problem did indeed exist, perhaps the Board should think about how the priorities could be reordered. Also, his authorities were concerned about the short period of time that was often given to Directors to consider important policy papers. Directors were perhaps provided with too many papers on a number of difficult issues, which could be dealt with as effectively if the staff or the Managing Director were to prepare instead a list of general topics to which Directors could react spontaneously.

On specific issues, Mr. Zeas continued, the staff had promised to prepare a report for the Board in February 1989 on the outcome of the GATT ministerial mid-term review of the Uruguay Round to be held in Montreal in December. A short factual report should be made available immediately after the conclusion of the conference, and perhaps not more than that was needed. He looked forward to the forthcoming papers on the international monetary system. He wondered whether additional papers on the SDR would be the most appropriate use of the staff's time, given the unlikelihood that agreement would be reached on an allocation of SDRs. He welcomed the proposal to present a preliminary budget for financial year 1989, but it would be helpful if that paper were preceded by the discussion of work priorities. He concurred with the points that had been made by other Directors concerning a better distribution of the work load and more clustering of closely related topics in Board discussions. Finally, he supported Mrs. Filardo's proposal that an annual evaluation of Fund programs be carried out by an independent unit within the Fund that was not directly involved in preparing or monitoring Fund programs.

The Secretary stated that he shared with his colleagues the concern that had been expressed by Mrs. Ploix, Mr. Cassell, and other Directors

about the uneven flow of work in the period ahead, and the prospect that the Board agenda for the period February-March 1989 would be rather heavy, contrasted with a surprisingly light agenda in the period November-December 1988. The light agenda in the immediately forthcoming period could be attributed to the seasonal low in the staff mission schedule to member countries in July, August, and September of each year. The staff papers prepared in connection with those missions would come to the Board approximately three months later, in the period November-December. Because of the seasonality of the staff's work, assuring that more papers on country matters reached the Board in the few months immediately following the Annual Meetings would not be easy. In the last quarter of the calendar year, in contrast, the schedule of staff missions to member countries was heavy, so that many staff papers on country matters could be expected in the first quarter of the succeeding calendar year. There was little the staff could do to smooth that part of the work flow; the Fund's procedures stipulated that the review of staff reports of Article IV consultations by the Executive Board was to be completed within three months of the conclusion of discussions with the country authorities. That notwithstanding, with the assistance of both the staff and Executive Directors, an overconcentration of country matters in the weeks immediately preceding the Interim Committee meeting might be avoided, by postponing nonoperational country items until the period immediately following the Interim Committee meeting, with the Board's approval.

On policy matters, the Secretary continued, the meeting of the Interim Committee and the Annual Meeting provided essential inputs for the management and the staff in guiding the shape of the work on policy matters, and a certain gestation period was always required before policy papers could be finalized. As the Managing Director had suggested and several Directors had welcomed, the opportunity could be taken at the time of the midterm review of the work program in January 1989, to review work priorities in the period not only until the Interim Committee meeting, but--to the extent possible--beyond early April 1989, so as to smooth the Board's consideration of policy matters. The staff might thus also be provided with an earlier indication of the priorities it was to attach to its work, contributing to a more even flow of policy papers.

The notion of clustering together discussion of related topics had received support, the Secretary noted. He assumed that the intention of Directors in supporting that notion was not in connection with clustering in March 1989, but rather before that date. The staff would examine whether the upcoming papers on the SDR might be clustered. A proposal had also been made to cluster the review of conditionality with the Board's discussion of the staff paper on program design. Clustering the discussions of those and other matters would be done with the Board's concurrence.

The date that had been proposed for the review of the world economic outlook appeared to be acceptable, the Secretary noted. He had taken note of Mr. Dallara's comments about publication of the world economic outlook, and of those of Mr. Yamazaki as well. Some unfortunate leaks of material

in the world economic outlook had appeared in the past. The next time those studies were circulated, another examination of the circulation and publication procedures might be opportune, so as to meet the concerns that had been voiced by many Directors.

The Board appeared to have agreed to examine the next set of papers on the Ninth General Review of Quotas on November 18, 1988, the Secretary said. He saw that no Director had proposed a change in dates for consideration of some of the material included in the Managing Director's statement on the work program on management of the debt situation. With respect to the functioning of the international monetary system, it appeared that it had generally been agreed that the staff should take more time to prepare the paper on nominal anchors for the system, but that an attempt should be made to advance the paper on key issues in the functioning of the system. On the SDR and international liquidity, the staff would attempt to cluster together the various papers. The paper on lending in parallel with Fund arrangements was scheduled for November 9, and that date appeared to be agreeable to Directors.

Several Directors had suggested that the paper on official balance of payments assistance for low-income countries and Fund-supported programs be brought forward, the Secretary continued. It was clear that the paper would require extensive information from, and collaboration with, aid agencies in individual countries, and that because of the time that would be needed for preparation, the staff believed that advancing the paper was not possible. The best the staff could do was to work toward Board consideration of the paper some time in the spring of 1989.

With respect to the area departments' work program, Mr. Ovi had commented that more countries should be put on the bicyclic procedure, the Secretary recalled. It seemed that a plateau had been reached for Article IV consultations, with approximately 120 consultations per year, on the basis of current procedures. Staff reflection on the matter would be needed if that number were to be reduced further. He had taken note of Mr. Ovi's request that the Board examine with the staff the matter of the number of countries being placed on the bicyclic procedure in the spring of 1989, after the Interim Committee meeting.

He would try to schedule an early Board meeting to address the report of the Joint Bank/Fund Committee on Staff Compensation Issues, the Secretary stated. The staff was considering the date of December 9, but he would see if it was feasible to advance it if the Board so wished.

He had noted that the scheduling of the burden sharing discussion on a date later in December appeared to be agreeable to most Directors, the Secretary stated. He had noted some Directors in favor of December 7, others in favor of December 12. He would consult with Directors about the final date.

Staff from the Research Department would be in touch with Mr. Posthumus regarding staff studies in progress in the area of monetary

policy, the Secretary noted. Finally, a number of Directors had supported advancing the Board recess in the summer of 1989 by one week, and he had heard no objections. He thus took it that the proposed scheduling of the recess was acceptable.

Mr. Grosche stated that it was not so important to advance the date for a discussion of the report of the Joint Bank/Fund Committee on Staff Compensation Issues as to assure that when it was discussed, progress was made and agreements reached, without the Board having to go over the matter in stages. It was important that the Board put the matter behind it as soon as possible.

The Chairman, responding to a question from Mr. Cassell, stated that a Bank-Fund staff paper summarizing modalities of Bank-Fund collaboration would be finalized in good time before the discussion by the Group of Ten, which had scheduled it for sometime in December or in the first part of 1989. The paper would be circulated soon for the information of Executive Directors.

In addition, the Fund staff, as requested, was preparing a paper on issues in Fund-Bank collaboration, which would present the Executive Board with an excellent opportunity to record its perceptions of the necessary delineation of competencies between the Fund and the Bank, and more important, what the conditions for strengthening cooperation would need to be, the Chairman continued. The management was working on strengthening such cooperation, and he had devoted a good deal of energy to it. The Board's guidance in the preparation of the "issues" paper would be essential, as would its endorsement of the conclusions. The Board's guidance and endorsement would also be necessary in ultimately determining the appropriate modalities for all substantive aspects of Bank-Fund collaboration.

One of the important areas where Bank-Fund collaboration came into play was arrears, the Chairman observed. In discussing the modalities for cooperation on arrears, the Fund's experience in the cases of Honduras, Guyana, Sudan, and possibly some others, would be taken into account.

He had been encouraged by Directors' kind words and support for the management's efforts in organizing the work of the Board and of the staff in the following months, the Chairman continued. He endorsed with pleasure the concept of clustering which Mrs. Ploix had suggested and the Board had accepted.

Executive Directors had broadly supported the proposed program of work on the world economic outlook, the Chairman noted, as well as the proposed work on structural policies. Duplication of the work of other institutions on structural policies would, of course, be avoided, but the staff would pursue those issues that were clearly within the Fund's competency. Although the analysis in the world economic outlook would cover all sectors, developments in the newly industrializing economies would be taken into account in particular. The results of the forthcoming

meeting of the GATT in Montreal with implications for the world economic outlook would also need to be considered. He intended to attend that meeting, and would report on it to the Board. With respect to the circulation and publication of the world economic outlook papers, as the Secretary had indicated, the management would seek more precise guidance from Executive Directors at the appropriate time.

On the matter of the Ninth General Review of Quotas, the Chairman went on, Mr. Dallara and Mr. Cassell had requested that further study of the role of the Fund in the 1990s and the revolving character of the Fund's resources be undertaken pending final decisions on the Ninth General Review of Quotas. Either a staff paper or a buff statement from him on that subject would be prepared. The staff and management would attempt to answer Directors' questions in the hope of facilitating communications with their constituencies. The meeting of November 18 on the Ninth General Review would proceed as scheduled. The staff would prepare a timetable listing the work still to be done on the Ninth General Review of Quotas, as many Directors were anxious to know the precise character of that work.

He had noted the agreement of most Directors on the work related to the debt strategy, the Chairman stated. The questions of Directors would be taken into account. Several Directors had expressed an interest in a paper concentrating on coordination policies distinct from the world economic outlook exercise, and relating to the functioning of the international monetary system. He agreed on the usefulness of such a paper. The paper on key issues in the functioning of the system would be brought forward. He had noted that there were differences of view about the scheduling of the paper examining the principles of Fund surveillance. The staff would structure its work so that the paper would be available after the next meeting of the Interim Committee.

Different opinions had been expressed as to the priority that should be attached to the SDR and international liquidity, the Chairman observed. That was the only item on which the Executive Board had not provided the staff with clear guidance, so the management would have to exercise some judgment about it. The Board had agreed that the question of lending in parallel with Fund arrangements should be discussed soon, and he hoped that the discussion would support those arrangements, which he believed constituted a positive contribution to the debt strategy.

Many Directors had stressed the need to move ahead on a case-by-case basis toward a resolution of overdue financial obligations to the Fund, taking into account all elements of the cooperative strategy that had been laid out by the Interim Committee, the Chairman went on. The six-monthly review of overdue obligations and the review of current procedures were scheduled for December 1988. The staff was preparing a paper on the modalities of the cooperative approach for January 1989. In addition to those papers, emphasis would be placed on a successful resolution of the arrears problems of some members in the coming months; the Special Advisor he had appointed to work on arrears would carry that forward. Success in

resolving arrears was needed, not so much because it would represent the elimination of an irritating problem to the Fund, but mainly because it would be of benefit to the countries which were currently in arrears.

He would attempt to arrange a clustering of the papers on the review of Fund conditionality and on program design, as some Directors had suggested, the Chairman continued. With respect to Bank-Fund collaboration, he reiterated that he gave the highest priority to an appropriate clarification of the delineation of responsibilities. If the Board thought it appropriate, the staff paper on that subject might address the more practical problems of collaboration in cases of overdue obligations as well. However, the Fund would need to be in a position to answer the questions that might be forthcoming from the Group of Ten.

It had been observed that greater attempts should be made to move countries onto the bicyclic procedure, and the staff and the management would do what they could in that regard, the Chairman observed.

He had noted with some surprise the anxiety of some Executive Directors concerning the tardiness and limited number of programs that had been agreed under the enhanced structural adjustment facility, the Chairman remarked. Strong programs would be required under that facility, which would take time not only to prepare, but to gather the indispensable political support for. Resources under the enhanced structural adjustment facility were not easy to secure, as Directors knew, nor would they be easy to disburse. The fact that the staff had refused to be precipitate had helped to secure better programs, in his view. The staff was focusing on the quality of programs, so that those programs could truly make a difference, and it was important that Directors not be impatient.

He agreed with Mr. Grosche and Mr. Dallara that it would be necessary to address the report of the Joint Bank/Fund Committee on Staff Compensation Issues comprehensively and expeditiously, the Chairman went on, with a view to having the recommendations available by May 1989 in order to be able to take precise decisions at that time. That such decisions would be possible concerning the professional staff was clear, but less clear for the support staff, where the level of agreement was less certain. He agreed with Mr. Grosche and Mr. Dallara that the sooner the decisions were made, the better it would be for the staff's morale. The first priority of management was to assure that the Fund's ability to continue to recruit the best talent was not endangered. He would request that the Board return soon to the matter of the acquisition of church property.

He concurred with Executive Directors about the timeliness of the studies of centrally planned economies and of fiscal policies in Islamic societies, the Chairman commented. He hoped that those studies would allow the Fund to deal more effectively with member countries.

The review of technical assistance was proceeding as had been indicated in the work program, the Chairman commented. The management was

reviewing the results of the staff's recent work concerning membership for Angola, and would report to the Board on it shortly. He agreed to the review of the work program in January, with a view to establishing some guidelines for the staff's work not only until the time of the next Interim Committee meeting, but for the following six months. Finally, he thanked the Executive Directors for agreeing to advance by one week the informal Board recess in the summer of 1989. He was sure that the preparations for the Annual Meeting would proceed more smoothly in consequence.

The Secretary, responding to a question from Mrs. Filardo, stated that the staff paper on enhanced surveillance had not yet been circulated, but that the staff hoped that it would be available by mid-November. A discussion of the paper in mid-December would thus be possible, if that was agreeable to the Board.

The Chairman, responding to another question from Mrs. Filardo, affirmed that the proposed staff paper on the analytical bases for comparing and assessing the characteristics of different menu items in the debt strategy would be included on the agenda.

The Executive Directors then concluded their discussion of the work program for the period until the spring meeting of the Interim Committee.

2. EXECUTIVE BOARD - INFORMAL RECESS

In accordance with the understandings reached in the discussion of the work program, the Directors adopted the following decision:

The period of the informal Board recess shall be from Monday, July 31 to Friday, August 11, 1989.

Adopted November 4, 1988

3. ESAF TRUST - MONETARY AUTHORITY OF SINGAPORE - SUBSIDY ACCOUNT - BORROWING AGREEMENT

The Executive Directors considered a staff paper on a borrowing agreement with the Monetary Authority of Singapore for the Subsidy Account of the ESAF Trust (EBS/88/225, 10/31/88).

Mr. Ismael stated that the Singapore authorities were pleased to participate in the funding of the enhanced structural adjustment facility. Their participation was extended in a spirit of international cooperation and as a gesture of goodwill toward member countries eligible for that facility.

Mr. El Kogali stated that he welcomed the loan by Singapore to the Subsidy Account of the ESAF Trust. The loan had a special significance

because it was from a developing country, and he wished to express the appreciation of the countries in his constituency.

The Chairman stated that he joined the other Directors in expressing his appreciation to the Singapore authorities for their support of the enhanced structural adjustment facility. The loan represented the first step of Singapore in assisting developing countries, and was therefore an important one. The decision by Singapore, which was a newly industrializing economy, to support other developing members demonstrated Singapore's readiness to discharge its new international responsibilities.

The Executive Board then took the following decision:

Pursuant to Section IV, Paragraph 3 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the International Monetary Fund, in its capacity as Trustee of that Trust, approves the agreement for borrowing from the Monetary Authority of Singapore in terms of the draft agreement set out in the attachment to EBS/88/225, and authorizes the Managing Director to take such action as is necessary to conclude and implement the agreement.

Decision No. 9016-(88/164) ESAF, adopted  
November 4, 1988

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/88/163 (11/4/88) and EBM/88/164 (11/4/88).

4. KENYA - TECHNICAL ASSISTANCE

In response to a request from the Central Bank of Kenya for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/88/308 (11/1/88).

Adopted November 4, 1988

APPROVED: May 16, 1989

LEO VAN HOUTVEN  
Secretary