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July 26, 1988

To: Members of the Executive Board
From: The Acting Secretary
Subject: Final Minutes of Executive Board Meeting 87/152

The following correction has been made in the final minutes of EBM/87/152 (11/2/87):

Page 1, item 3: for "Sudan...Ineligibility - Page 51"
read "Sudan...Ineligibility - Page 50"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/152

10:00 a.m., November 2, 1987

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

Executive Directors

C. H. Dallara
J. de Groote
A. Donoso
M. Finaish
G. Grosche
J. E. Ismael
A. Kafka
T. P. Lankester

Y. A. Nimatallah
G. Ortiz

H. Ploix
G. A. Posthumus

G. Salehkhoul
A. K. Sengupta
K. Yamazaki
S. Zecchini

Alternate Executive Directors

E. T. El Kogali
Jiang H.

J. Prader

J. Reddy

C. Enoch
D. McCormack
C. V. Santos
I. A. Al-Assaf
L. Filardo
M. Fogelholm

G. P. J. Hogeweg
I. Sliper, Temporary
O. Kabbaj
L. E. N. Fernando
M. Sugita

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

1.	Executive Director	Page 3
2.	Work Program	Page 3
3.	Sudan - Overdue Financial Obligations - Review Following Declaration of Ineligibility	Page 50
4.	Burundi - Technical Assistance	Page 51
5.	Approval of Minutes	Page 51
6.	Executive Board Travel	Page 51

Corrected: 7/26/88

Also Present

Administration Department: H. J. O. Struckmeyer, Deputy Director;
N. S. Jackson, H. Wiesner. African Department: A. D. Ouattara,
Counsellor and Director. European Department: M. Russo, Director;
H. O. Schmitt. Exchange and Trade Relations Department: L. A. Whittome,
Counsellor and Director; J. T. Boorman, Deputy Director; S. J. Anjaria,
G. Bélanger, E. Brau, H. B. Junz, M. R. Kelly, C. Puckahtikom,
P. J. Quirk, K. P. Regling. External Relations Department:
A. F. Mohammed, Director; H. O. Hartmann, P. C. Hole. Fiscal Affairs
Department: V. Tanzi, Director. Legal Department: R. H. Munzberg.
Research Department: J. A. Frenkel, Economic Counsellor and Director;
A. D. Crockett, Deputy Director; M. Goldstein, Deputy Director;
J. M. Boughton, R. Pownall, P. Wickham. Secretary's Department:
C. Brachet, Deputy Secretary; A. P. Bhagwat, G. Djeddaoui, B. J. Owen.
Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer;
D. Williams, Deputy Treasurer; W. L. Coats, Jr., O. Roncesvalles. Western
Hemisphere Department: S. T. Beza, Director. Personal Assistant to the
Managing Director: H. G. O. Simpson. Advisors to Executive Directors:
A. A. Agah, P. E. Archibong, E. Ayales, M. B. Chatah, K.-H. Kleine,
A. Ouanes, P. D. Péroz, P. Péterfalvy, G. Pineau, D. C. Templeman,
A. Vasudevan. Assistants to Executive Directors: N. Adachi, A. A. Badi,
R. Comotto, F. Di Mauro, S. Guribye, M. Hepp, G. K. Hodges, A. Iljas,
S. King, V. K. Malhotra, C. Noriega, L. M. Piantini, C. C. A. van den Berg,
H. van der Burg, E. L. Walker, I. Zaidi.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Charles Enoch as Alternate Executive Director.

2. WORK PROGRAM

The Executive Directors considered the following statement by the Managing Director on the work program until the spring 1988 Interim Committee and Development Committee meetings together with a tentative schedule of meetings for the same period (Secretary's Circular No. 87/111, Revision 1, 10/21/87).

The Chairman made the following statement:

Given the many urgent issues and the large volume of work, it is important to adopt a work program that will be manageable within the available time and resources and I am looking forward to an exchange of views to help identify our priorities for this purpose. In this statement I shall be concerned primarily with the main elements of our work until the April 1988 meetings of the Interim Committee and Development Committee. However, there are several areas in which the program of work will continue into the subsequent months and I shall touch on those aspects where appropriate.

During the recent meetings, Governors have put forward several important proposals concerning the role of the Fund. In the Board discussion in September 1987 on the issues raised in the G-10 and G-24 reports, we also heard proposals from Executive Directors. Our aim in this work program will be to concentrate our efforts on those areas where genuine progress can be made toward a consensus, and to implement the improvements on which the Executive Board can agree. As requested, we will report to the Interim Committee on the status of our work on the role of the Fund at its next meeting. Our consideration of these matters will no doubt continue in the following work program.

1. World economic outlook

Governors welcomed progress with the more extended use of key indicators, particularly in highlighting the international interaction of economic policies and developments. The medium-terms focus of the analyses as well as the use of alternative medium-term scenarios were also received favorably. Our task now is to continue to develop and refine this evolving approach, particularly in the spring 1988 World Economic Outlook. As part of the ongoing research to improve the modeling capabilities of the world economic outlook exercises and in support of policy assessments flowing from them, the staff proposes to extend the

coverage of its medium-term scenarios to major country groups in the developing world. These extensions would be designed to strengthen the analyses of economic interactions of developments among groups of industrial and of developing countries, and the impact of trade policies. It is proposed that Executive Board discussion on the world economic outlook take place on March 25 and 28, 1988.

The Interim Committee has encouraged us to continue exploring the development of criteria that would be helpful in judging the sustainability and desirability of the evolution of a limited set of key economic variables. Furthermore, the Governor for the United States has proposed that consideration be given to utilizing as an additional indicator in the coordination process the relationship among currencies and a basket of commodities, including gold. A staff paper examining this proposal will be placed on the Board's agenda on January 8, 1988, so that, in light of the Board discussion, some of the ideas under consideration might find application in the forthcoming world economic outlook exercise.

2. Other aspects of surveillance

Following the July Board discussion on the use of indicators in surveillance, we have begun to experiment with the use of indicators in our regular Article IV consultation discussions with members. It is proposed that a general discussion of that subject be incorporated in the staff report for the annual review of the implementation of surveillance to be completed no later than April 1, 1988. The biennial review of the 1977 document "Surveillance over Exchange Rate Policies" has also to be completed by the same date and in light of the Board discussion last July on the principles of surveillance, the staff paper will propose a decision completing the biennial review. The above report will also provide an opportunity for a preliminary review of the experience with the implementation of the new bicyclic procedure for Article IV consultations. The paper covering all these aspects of Fund surveillance will be brought to the Board's agenda on March 7, 1988.

An informal session on exchange market developments is proposed for November 13, 1987; the next such session could be scheduled in mid-January. We will also have an opportunity to give substantive consideration to this subject in connection with the world economic outlook discussion next March.

3. Access to and use of Fund resources

The Executive Board needs to give effect to the agreement reached in the Interim Committee concerning enlarged access policy and the access limits under that policy in 1988. For

that purpose, a paper with the necessary decision will be circulated for consideration by the Executive Board, on a lapse of time basis, by the second part of November.

Among the Fund's facilities, the extended Fund facility is designed specifically to provide financial assistance over a longer period to members engaged in structural adjustment. It has been used little recently, and I believe it to have the potential for an expanded role in the current circumstances. During the recent meetings, many Governors stressed, and our experience of the last few years indicates, that structural adjustment requires more time and, in certain cases, could be tackled more effectively within the framework of the extended Fund facility than under successive stand-by arrangements. We have therefore to examine how we can revitalize the extended Fund facility, and it is planned to offer proposals to this effect in the staff papers on the review of conditionality which are discussed in Section 5 below.

In March 1987, the Executive Board initiated a comprehensive review of the compensatory financing facility. A further staff paper, prepared in light of suggestions put forward in that first round, has now been scheduled for discussion on November 4, 1987. Issues covered by that paper include possible adaptations in the compensatory financing facility in order to deal with contingencies arising from unforeseen developments in export earnings. Recent proposals by the Governor for the United States, the Group of Twenty-Four as well as other Governors for a broader treatment of external contingencies in Fund-supported adjustment programs warrant further examination of these issues. The discussion on November 4 will provide an opportunity for Directors to have an exchange of views on the various proposals. Subsequent work on the review of the compensatory financing facility and on provision for external contingencies could be taken in hand in light of the guidance from the Board with a view to completing the review of the compensatory financing facility in advance of the April 1988 Interim Committee meeting.

4. Enhancement of the structural adjustment facility

As I indicated in our informal meeting of Friday, October 9, we intend to make rapid progress in our efforts to bring the enhancement of the structural adjustment facility to a successful conclusion in the weeks ahead. Consultations with potential creditors are being stepped up in the second half of October. On the basis of the discussions that are taking place, the staff will prepare for Board consideration a paper on proposed financial arrangements. Conditionality issues, access policy as well as procedures for monitoring program implementation will also have

to be given consideration. Let us try to take these matters up in the Executive Board before the Thanksgiving break, perhaps on November 23. Further Board consideration of this subject could take place on December 9 in order that work on all substantive issues on the enhancement of the structural adjustment facility could be completed in the week thereafter.

5. Issues in program design and in conditionality

The Interim Committee has asked the Executive Board to conduct a thorough review of adjustment programs and their supporting Fund arrangements, as well as to consider whether the Fund's policies regarding conditionality need to be re-examined in light of changes in the conditions facing member countries and in light of the increased emphasis being placed on growth-oriented adjustment. The staff will provide the Board with a number of papers to assist in carrying out this mandate. The work on the enhancement of the structural adjustment facility, the review of the compensatory financing facility, and proposals to deal with external contingencies in Fund arrangements, mentioned above, are of course relevant in this regard.

The first of two initial papers will examine some of the main analytical and empirical issues associated with carrying out "growth exercises" in the context of the design of Fund-supported programs and has been scheduled for Board discussion on December 16. A complementary paper will examine technical and policy issues in the monitoring of structural adjustment in Fund-supported adjustment programs. It will identify aspects of structural adjustment that the Fund should be involved in and how the Fund can best support effective implementation of policies by members. It is proposed to discuss this paper in the Board on December 18. Background papers dealing with monitoring issues in particular areas, such as trade liberalization and exchange system liberalization, will be available for this discussion.

An empirical staff study examining the impact of Fund-supported adjustment programs on the poor in selected sample countries will attempt to identify issues which are of relevance to the design of Fund-supported adjustment programs and has been tentatively placed on the agenda for discussion on January 13, 1988.

Further papers on the comprehensive review of conditionality are planned to be brought forward for Board consideration by February. In light of the Board discussions on the review of the compensatory financing facility, provisions against external contingencies, program design, and program monitoring mentioned

above, a number of specific issues would need to be examined, including the following: proposals to modify the extended Fund facility, possible operating changes needed for contingency mechanisms in stand-by and extended arrangements, as well as various proposals regarding conditionality including those advanced by the Group of Ten and the Group of Twenty-Four.

A separate paper will address fiscal aspects of Fund programs, including an assessment of the rationale of fiscal conditionality. In light of a review of the experience with problems of implementation and monitoring, the paper will explore alternative approaches to fiscal conditionality to identify those most conducive to stabilization and growth. Issues related to structural aspects of fiscal policy will receive particular attention, including tax and expenditure reforms; Board discussion is planned for February 1988.

As outlined above, we shall advance our consideration of these issues as much as possible by next April, report to the Interim Committee, and continue our work on them afterward.

The staff is also continuing its longer-term program of studies on the conceptual and empirical underpinnings of growth-oriented adjustment programs, with particular emphasis on the economic foundations of growth in developing countries--for example, savings, investment, and factor productivity, together with the macroeconomic and structural policies needed to increase them. These papers will become available in the form of working papers or staff memoranda and, as appropriate, for consideration by the Executive Board.

6. Capital markets and issues in debt management

A staff paper entitled "Innovations and Institutional Change in the Financial Markets," focusing on trend changes in international financial markets over the past decade and the areas in which they have implications for Fund policies, will be issued shortly and has been tentatively scheduled for Executive Board discussion on November 18.

A paper entitled "Issues in the Debt Strategy," providing an analytical framework for a discussion of options faced by debtors, creditors, and the Fund, has been tentatively scheduled for Executive Board consideration, possibly in a seminar, on January 15, 1988.

As on earlier occasions, a review paper discussing operational issues concerning the Fund's relations with indebted countries will be issued for Board consideration prior to the April Interim Committee meeting. The paper will review the continuing role of the Fund in the debt strategy in the context

of the "menu" approach, including developments with respect to the use of market-based options. It is also planned to cover experience with two procedures that have relevance to other areas of the Fund's operations. Experience with enhanced surveillance, which was last reviewed in March 1987, would be considered; and the use of "approval in principle" in connection with financing requirements would be reviewed. An update of capital market developments of importance to the debt strategy will also be provided. Executive Board discussion has been tentatively scheduled for March 30, 1988, after the world economic outlook discussion. As background documentation, Directors will have available a paper reviewing Paris Club reschedulings in the 18-month period through December 1987.

7. Area departments' work program

Projections made by area departments suggest that we can expect about 75-80 staff reports for Article IV consultations to be issued during the period to the end of April 1988. Some 8 of these would be reports on interim Article IV consultation discussions under the bicyclic procedure and would be issued for information. Under the upper credit tranche arrangements that are at present in effect, over 20 reviews would need to be completed during this coming period, and it is also projected that approximately 20 requests for arrangements under the structural adjustment facility would be brought to the agenda, including requests for second-year arrangements. In addition, the staff will hold discussions on adjustment programs with a number of member countries; the number reaching the Board will depend on the progress of negotiations. We should also expect several requests for the use of resources under the special facilities.

8. Ninth General Review of Quotas

It is incumbent on the Executive Board to complete in the next few months the technical work required by the Quota Review. Accordingly, the staff has under preparation papers dealing with "Revised Quota Calculations," "A Note on the Eighth General Review of Quotas," and "Further Consideration of Variables in the Quota Formulas" which will be issued to the Board as soon as possible. The latter paper will include an examination of the points raised in the July meeting of the Committee of the Whole with respect to the quota formulas and the coefficients for the variables in the formulas as well as considering the suggestions for new variables that were made at that time. These papers have been scheduled for consideration by the Committee of the Whole on January 6, 1988. If necessary, it is intended to issue in late February or early March 1988 a short paper on the progress of work under the Ninth General Review and draft resolution for adoption by the Board of Governors that the Executive Board continue its work on the review of quotas.

9. Functioning of the international monetary system

To achieve a more efficiently functioning international monetary system, we should give priority to examining the form of international monetary arrangements as they are currently developing in order to determine how best to adapt to that evolution and, where possible, how best to shape it. Analytical work in support of those efforts is planned along a broad spectrum over this and the next work program. In addition to the work on policy coordination, it is expected that research studies will be undertaken, inter alia, on appropriate anchors against inflation in a managed exchange rate system, on the lessons of the European Monetary System, and on desirable "rules of the game" for the evolving exchange rate system.

The Interim Committee has asked that the question of allocation of SDRs be kept under review and in order to facilitate a Board discussion of the relevant issues, the staff will prepare a paper to be placed on the agenda in the first half of March. Staff work has also been in progress on issues concerning the role of the SDR in the system and a paper on "The Issue of Resource Transfers in the SDR System" is planned to be issued in December. Additional papers on "Exchange Market Interventions in SDRs" and "Further Consideration of Issues Pertaining to Post-Allocation Adjustments in the Distribution of SDRs" could be brought to the agenda in the first part of 1988.

10. Trade issues

The staff intends to prepare a comprehensive paper on trade issues, including the relationship of trade to macroeconomic and structural imbalances as well as how the Fund might contribute to progress in the Uruguay Round, in time for Board discussion before next year's Annual Meeting. In response to the request of the Development Committee, the Fund and Bank staffs will collaborate on an in-depth study on the impact of industrial policies of the developed countries on the developing countries.

11. Operational and other matters

The subject of "The Fund's Reserves and Operational Modalities of the Special Contingent Account" is on our agenda for October 26 and in the light of that Board discussion, further work will be undertaken as needed.

A paper on "Midyear Review of the Fund's Income Position" will be issued for consideration by the Executive Board on December 14, 1987. A staff report on the annual review of the Fund's financial position will need to be issued in the first

part of April 1988 in time to be available for the Board discussion of the FY 1989 administrative and capital budgets; it would be placed on the Board's agenda shortly after the end of the financial year.

The Board's decision on burden sharing and the related understandings concerning the mitigation of the U.S. share in burden-sharing need to be reviewed prior to the end of FY 1988. A staff paper addressing these matters will be issued for consideration by the Executive Board on April 27.

Other operational matters:

(i) Renewal of General Arrangements to Borrow is tentatively scheduled for Board consideration on November 13.

(ii) A six-monthly report on overdue financial obligations to the Fund, including further analyses of penalty charges in the context of the Fund, will be issued for Board discussion in early December.

(iii) A paper on "Review of Valuation of Late Payments to the Fund" will be issued for consideration before the year-end.

(iv) The designation plans and operational budgets for the December-February and March-May quarters are tentatively scheduled for consideration on December 11, 1987 and March 11, 1988, respectively.

(v) A paper for the next semiannual review of the Fund's liquidity position and financing needs will be issued for Board discussion on March 23, 1988.

The staff has been reviewing the matter of a possible change in the timing of the Fund's financial year and a report will be issued to the Board in the near future.

A biennial paper on Fund statistics will review developments in IFS and other Fund statistical publications, including particularly the coverage and currentness of published statistics and will be brought to the agenda approximately at the end of April or early May 1988.

12. Administrative matters

The annual midyear budgetary review by the Executive Board has been tentatively scheduled on December 21, 1987 and will give Directors an opportunity to provide preliminary indications for the preparation of the administrative and capital budgets for FY 1989. The latter documents will be circulated around end-March 1988 and have been scheduled for consideration by the

Board on April 20. In that connection, information papers on the Fund's data processing and computerization activities and on the outcome of the early retirement assistance scheme will also be issued around end-March for the information of the Board.

Finally, a paper on the establishment of an administrative tribunal, which was requested by the Board following its discussion early in 1987 on administrative tribunals for international organizations, has been placed on the agenda for January 20, 1988.

The Managing Director said that while the work program was very demanding of the staff as well as the Executive Board, there was little or no room for maneuver. In the light of the mandate given by the Governors and the present world situation, it was incumbent on the Fund to be as active as possible on all fronts. The department heads had assured him that all efforts would be made to carry out the planned work program. The staff was, however, already fully extended and, in some cases, overextended, and even if the staff could produce all the papers required, the resources of the Executive Board itself were not without limit. Therefore, Directors should make every effort to use the existing mechanisms for expediting the Board's work--the use of buff statements, for instance--and should also try to avoid calling for work not contemplated in the program, unless additional resources could be made available to carry out that additional work, or a corresponding reduction elsewhere in the program could be agreed upon. The latter option was, however, a difficult one, as it would be hard to make cuts within the program.

Mr. Kafka made the following statement:

In general, I agree with the work program, which is indeed a very heavy one.

I will comment first on the distribution of work over time. There is a heavy concentration of agenda items in November, January, and February. During these months, the number of items averages 22 while in the remaining months covered by the work program the average is only 12, although the difference will probably be reduced automatically through the gradual accretion of agenda items. Agenda items should also be weighed by the time they are likely to consume.

This discrepancy does however emphasize the need for more use to be made of the bicyclic method. Pending that, management might perhaps have another look at the scheduling. For instance, February is entirely free of policy items, although it has a heavy concentration of consultations.

This chair has already suggested in a recent Board meeting that we may need considerably more time for discussion of the compensatory financing facility than is now foreseen. Even

though the Interim Committee did "encourage" us to come to a decision before its next meeting, there are many instances of "encouragement" from the Committee with which we have not found it possible to comply. We should keep an open mind on how far we proceed with the review of the compensatory financing facility before the Interim Committee meets in April.

We have a large number of papers on program design, not all of which are to be discussed during the period under review. The general paper on conditionality is not one of the papers for which discussion dates have already been set. This paper merits the earliest possible consideration.

I welcome the proposed discussion of the paper on enhanced surveillance and approval in principle, which is dealt with under the heading of "debt management issues." I assume that the discussion of the subject of approval of arrears would fit under this heading; it should be an early subject for Board discussion.

Considering the importance of the last five subjects outlined in the Managing Director's statement, our discussion of each of them before the next Interim Committee Meeting should be preliminary in nature, so that the input of the Interim Committee could be available before a decision is taken--the Committee's "encouragement" to us to finish our discussion of the compensatory financing facility before April notwithstanding.

I welcome in particular the Managing Director's proposal to discuss the functioning of the international monetary system. We have had the benefit of a paper on coordination by Mr. Corden and of listening to a paper by Professor Cooper on the same subject. Both found net positive externalities present in the coordination of policies. An opposite point of view has however been expressed recently by Professor Feldstein, and I would encourage the staff to make Professor Feldstein's point of view available, perhaps by a personal appearance at a seminar.

The Fund expects to discuss trade issues which will include the question on how the Fund might contribute to progress in the Uruguay Round of GATT. I look forward to this paper. I am sure the staff is conscious of the fact that the Fund's influence over countries in need of Fund assistance must not be used to establish asymmetries in the Fund's treatment of trade policy of these countries as distinct from the treatment of the trade policies of other countries that do not need Fund financial support.

It would have been preferable to have a preliminary exchange of views on the General Agreement to Borrow before its renewal was submitted to the G-10 members for approval--a submission that was based only on the staff's position that no change was

necessary. The proposed biennial paper on Fund statistics should also take up the question of adapting IFS statistics so that area departments could in all cases use them without major further elaboration.

The establishment of an Administrative Tribunal should not be delayed. I wonder whether--at the time of the preliminary budget discussion--we might begin to discuss priorities for our work over the next fiscal year or even over a multiyear period, so that we can either expand our staff or postpone--or even cancel--the examination of lower priority matters.

Mr. Salehkhrou made the following statement:

I welcome the Managing Director's thoughtful and rather ambitious statement, which, in addition to envisaging our work program until the April meetings of the Interim and Development Committees, covers various areas beyond April.

In discussing the world economic outlook and other aspects of surveillance, I wish to recall the purpose of this Board which, *inter alia*, and according to the Articles of Agreement, is "to promote international monetary cooperation...which provides the machinery for consultation and collaboration on international monetary problems,...to promote exchange rate stability, and to maintain orderly exchange arrangements among members...." The question which I have raised on several occasions in the past is whether, to what extent, and how symmetrically we are fulfilling this mandate. The recent stock market crash and related events have naturally preoccupied me, as they surely have many colleagues here--particularly as I had, as far back as our September 1986 discussion of international capital markets, rather explicitly foreseen the inevitable crisis which would result from the policies of industrial countries.

The points I raised at that time unsurprisingly met with skepticism from some colleagues, especially those from industrial countries. I have often wondered how effectively the temporary and ad hoc measures adopted by major industrial countries in various gatherings outside this institution could provide lasting solutions to such fundamental issues, with global repercussions, as economic policy coordination and debt problems. The views which emerged from these meetings were that developing countries are only a burden--because of their debt--and a residue of global economic activities.

I was surprised that my recent call for an urgent formal or informal Board meeting in the aftermath of the stock market crash was not received favorably, on the grounds that sufficient information was lacking. This has again raised the fundamental issue

of the Fund's function as the guardian of the stability of the international monetary system, as envisaged in the Articles. Failure to urgently address issues of such global significance would likely lead to the public perception of the institution as lacking self-confidence. In response to some of my authorities' inquiry regarding Fund views on the matter, I was embarrassed to have to respond that perhaps the issue was too current to be addressed by the Fund. Lack of timely reaction to financial and monetary crises of a magnitude such as those occurring recently, and the absence of the ability to predict and to suggest preventive measures, may in the long run create doubts regarding the institution's credibility. Such an outcome would also be unfair to the professional staff, whose technical ability and willingness to offer in-depth analysis and viable solutions remain neglected. It would further call into question the ability of the Board and management to guide the institution in the proper and timely fulfillment of its leadership role in international monetary and financial affairs.

It is sometimes difficult to understand how, for example, flexibility in setting deadlines or time limits in dealing with the appropriateness of the monetary and exchange policies of some newly industrialized countries, or the expeditious settlement of some small debtor members' arrears vis-à-vis commercial and official creditors including the Fund, can be regarded as jeopardizing the Fund's credibility, while for the discussion of an event of such global importance--comparable only to similar events in the 1930s--we wait for the media reaction, and possibly also for discussions by some or all of the major players in isolation from the rest of the world, before embarking on any meaningful deliberation. This is contrary to the Board's decision to hold informal sessions on exchange market developments, a decision in which importance was attached to regularity, frequency, and flexibility in the timing of these meetings, so that major developments can be dealt with effectively on a timely basis.

I therefore propose that we include in the biennial review of surveillance over exchange rate policies the crucial subject of major industrial countries' cooperation with the Fund under its surveillance function--specifically, cooperation in discharging their legal and other obligations. This proposal extends beyond recent discussions and developments--such as the use of indicators and the inclusion of international policy interactions and developments in the world economic outlook exercise, the latter admittedly an improvement over the past.

Indicators per se are not the solution to prevailing pressing problems in the world economy. Lack of political will--as demonstrated by recent stock market events--would continue to stall the translation into action and all purely technical analyses,

whatever their high quality, merit, and timeliness. Nevertheless, this approach of including all new suggestions, be they from G-24 or major industrial countries, is relatively useful.

I therefore wonder how useful the proposed new index--which would establish a relationship among currencies and a basket of commodities including gold--will be as a benchmark for currency policy coordination. Commodity prices are not a major element in the cost of production in the major currency countries, and commodity prices have historically been very volatile. Is it safe to choose such a volatile benchmark as a basis for policy coordination? Would it not be better to use a basket of traded manufactured goods, whose prices more accurately reflect the costs of production in the major industrial countries?

The staff, while working on the issue, should therefore develop two indices for the sake of comparison: one based on the proposal made by the Governor for the United States, the other based on a basket of manufactured goods traded in the industrial countries. A simulation exercise could then be the basis of a comparative study of these two indices to determine their relative efficacy as policy coordination benchmarks.

As to the access and use of Fund resources, I am heartened by the Managing Director's belief that the extended Fund facility has the potential for a greater role in providing longer-term financial assistance to members undertaking structural adjustment--a process that does indeed require more time. The extended Fund facility can therefore be more useful than successive stand-by arrangements. I only hope that its revitalization is not coupled with unrealistic conditionality, and that the level of access attached to it is commensurate with the magnitude of the adjustment undertaken. This chair would strongly oppose any reduction in access limits under the compensatory financing facility, and any further conditionality or phasing of disbursements under the facility, which would run counter to the emergency nature of the facility--including its cereal component. The present compensatory financing facility should continue to be fully operational unless and until it is reviewed or in any way modified by the Board. Furthermore, we should examine carefully all proposals--including those put forward in the latest G-24 report--before embarking on any modification. The compensatory financing facility has proven to be most useful to the membership, and any modification should be carefully analyzed and should take into account the difficult situation of developing countries because of commodity and interest rate developments.

Although I am somewhat encouraged by recent developments concerning the proposed enhancement of the structural adjustment facility, I continue to remain skeptical regarding both the possibility of tripling its size as now envisaged, given the absence

of firm commitments from some major industrial countries, and the fact that these pledges would be in addition to existing commitments. Relevant crucial issues, including the cross-conditionality that appears to hamper the efforts of some eligible members, one of which is in my constituency, would also need to be adequately addressed. More generally, we must strive to preserve the low conditionality characteristic of the original Trust Fund as we now design the operational modalities of the enhanced structural adjustment facility. Such modalities should include simplified procedures to be followed in cases of member countries whose size or special conditions make it difficult to obtain the necessary economic and statistical data in a timely fashion.

Basically I go along with the proposed Board discussions on analytical papers and empirical studies on program design and conditionality. However, I wish to stress the importance of the particular attention which must be placed on the recommendations made in the "Report of the Deputies of the Group of Twenty-Four on the Role of the Fund in Adjustment with Growth." Furthermore, in preparing background papers dealing with monitoring issues, trade liberalization, and exchange system liberalization, the staff should devote sufficient attention to the restrictive trade practices and protectionist policies of industrial countries against exports of developing members. So far as reviewing the design of Fund-supported adjustment programs and improving their quality and growth orientation are concerned, I wish to reiterate once again that the creation of an independent evaluation unit within the Fund is in order.

Given the increasing uncertainties in the international financial and monetary system, I hope that in the forthcoming papers and discussions on capital markets and issues in debt management the Fund and the international community at large pay more serious attention to the persisting debt problem, and particularly to the negative attitude of commercial banks.

More generally, it is not feasible for Executive Directors and their limited staffs to pick out all points of particular interest--or potential harm--to individual members of their constituencies from the very heavy flow of papers received on a daily basis. This is especially true for points covered in the appendices, or in other less visible parts of reports such as background notes and footnotes. I do not propose to allow new positions in the offices of Executive Directors. Instead, the staff should be cognizant of the grave consequences that one-sided views and judgments--from the staff or outside bodies--on members could have for individual countries, once those views have appeared in official public or confidential Fund documents, as was recently the case with a member in my constituency. Although I do not question the intentions of the staff, and am

grateful for remedial steps already taken, I would like to propose possible means of avoiding the repetition of such problems. The staff, before circulating those papers containing specific references of particular interest to individual members, should consult the authorities concerned through their Executive Director, seeking the views of those authorities.

I welcome the Managing Director's suggestion that the Executive Board should complete the technical work required for the Ninth General Review of Quotas during the next few months. The Fund's present liquidity position should not however be used as a pretext to unduly delay the quota increase exercise, since this level of liquidity has been maintained artificially by increased conditionality and lower effective access to Fund resources.

I am pleased to note that the Fund is finally preparing to examine and consider the relationship of trade to macroeconomic and structural imbalances and how the Fund might contribute to progress in the Uruguay Round of GATT. I also look forward to the timely "in-depth study on the impact of industrial policies of the developed countries on the developing countries."

I can go along with the list of operational and other matters to be discussed in our forthcoming meetings. Pragmatism and flexibility should however prevail in the preparation and discussion of penalty charges. The planned review of valuation of late payments to the Fund is long overdue, and the Fund should take the necessary corrective measures as it has implemented financial criteria which were never approved by the Board in the form of rules, an approval that should be required for all financial matters.

I deeply regret the lack of any reference to future work on the subject of Islamic banking and the Islamic financial system, despite the urging of the Executive Board--reflected in the Chairman's concluding remarks at the end of the Board seminar discussion on Islamic banking on July 18, 1986, and in his comments envisaging further work on the subject made during our discussion on the midyear review of administrative expenses in fiscal year 1987 and the budgetary outlook for fiscal year 1988.

I welcome the circulation of the few working papers which have appeared since the Executive Board seminar on Islamic banking. I am confident that this modest initiative and minimal investment of time and effort will soon bring a substantial return to the Fund in terms of improving its overall image, especially in those quarters where the Fund is perceived--rightly or wrongly--as imperious, magisterial, and doctrinaire. Such an improvement is particularly necessary in the face of an over-stretched international financial system heavily burdened by a

debt crisis of massive proportions, a crisis that is no longer the concern only of a handful of developing countries. Research into the theoretical and empirical feasibility of a wholly equity-based system thus becomes important to all members, not just to the nearly one third of the membership which is Muslim.

A good beginning has been made in this area. This effort has established solid credentials for the Fund as the single international institution having the foresight, openmindedness, and the intellectual capacity to explore the frontiers of a viable alternative financial system. That is why it is disappointing to find no reference to the subject of Islamic banking and financial system in the work program for the second consecutive time. I find it difficult to understand why, after a most welcome beginning, the research effort in this area appears to have been abandoned or at best put on the back burner.

Let me assure management and staff that the papers which have appeared so far have been well received and carefully examined by scholars and policymakers in many quarters outside this institution. Nonetheless, these working papers do not fully reflect the sentiment of the Board--as expressed by the Chairman--in mapping out the questions to be addressed in the follow-up Board papers after the seminar on Islamic banking. While the Chairman recognized the staff and time constraints involved in addressing all the interesting questions raised during the seminar discussions, he asserted that "a number of Directors have asked us to follow developments in the field of Islamic banking, and in particular to study the implications with respect to relations between members who develop these systems and the Fund. That gives a focus to our studies of Islamic financial systems, particularly with respect to a number of the questions that I referred to--including monetary policy, fiscal policy, exchange rate, and international capital flows--and their possible impact on the policy instruments in Fund-supported programs. Although other specific questions that have been raised would be interesting to study, perhaps the questions I have alluded to should be given priority in view of the constraints on staff and time."

It is both wise and necessary for Fund programs to be designed so that they are fully compatible with individual members' cultural and sociopolitical as well as economic orientations, so that they meet with genuine popular support. Recurring difficulties with many members under Fund-supported adjustment programs, including some very recent cases, validate this point and my assertion that this area warrants serious further consideration.

Mr. Nimatallah said that he joined Mr. Salehkhrou in calling for informal Board consideration of the reasons for, and the impact of, the stock market crash, perhaps together with exchange rate developments, on November 13. Those recent events also provided an opportunity for a special, brief issue of the World Economic Outlook, briefly based on a short paper from the Research Department, which would include a short discussion of the crash and an explanation of the unexpectedness of the correction, its international dimensions, and the outlook for the future. That approach would allow Directors to answer questions from their authorities concerning the views of the Fund on recent events in the stock markets.

The Chairman said that while the situation was being carefully monitored, it was important that the Fund not make the situation more difficult. The Fund also had to ensure that it was not perceived as the institution of last resort, able--by some kind of miraculous intervention--to solve all problems. The Fund was not in charge of maintaining stability in the stock market; rather, it was a monetary institution with recognized responsibilities that had to be discharged with a high degree of prudence. Accordingly, while the Fund would actively study and monitor the situation and stand ready to offer assistance to policymakers, that assistance would have to be provided at the appropriate time.

Information for the Executive Board and an exchange of views on questions surrounding developments in the stock market were a different matter, the Chairman continued. He favored such discussions and wished to facilitate them. In so doing, however, the Fund would have to avoid giving any impressions of panic to national capitals and the press. Therefore, he preferred to hold the discussions at the regularly scheduled time--November 13. The staff would try to provide the Board in advance with all the information available--including, if possible, a special paper responding to some or all the questions raised by Mr. Nimatallah.

Mr. Ortiz made the following statement:

I will not attempt to comment on all aspects of the work program since, in general, it interprets faithfully the mandate of the Interim Committee and presents a balanced overview of the different issues. Of course, during the past weeks, the world economic situation has changed drastically from that described in the Committee's communiqué. It is, however, too early to define the extent of the changes that will follow the worldwide stock markets crash, the instability of the foreign exchange markets, and the apparent breakdown of at least some of the understandings of the Louvre agreement. The question naturally arises as to the extent to which our work program needs to be modified--or at least changed in emphasis--in view of these developments. If anything, the need for cooperation is now even more urgent, and the role of the Fund in overseeing the international monetary system requires some rethinking. In this context, the proposed

studies on international monetary arrangements, policy interactions, and the search for some sort of fixed point or anchor in a system of managed floating seem particularly relevant.

With respect to the world economic outlook, indicators, and surveillance, we need to continue to explore the implications of economic interactions for the further development of our practice of surveillance. As recent events have demonstrated in a dramatic fashion, the degree of interdependence of the world economy is such that the lags between policy actions in key countries and their repercussion on the rest of the world are now much reduced. The use of indicators needs to be expanded, and recent proposals for additions and modifications--including those of Secretary Baker and others--need to be taken into account; however, it would also appear that the case for exploring possible triggering mechanisms for consultations, as well as other measures that can give operational significance to the use of indicators, has been considerably strengthened.

During our previous discussion of the world economic outlook, this chair suggested extending the coverage of the medium-term scenarios to developing countries to have a better understanding of the repercussions of the various policies adopted in industrial countries. This suggestion seems all the more relevant now, and thus I welcome the proposed extensions of the World Economic Outlook. In particular, I would like to see a thorough exploration of the effects of changes in the world economic outlook for the indebted countries, as well as continued attention to the significance of the debt overhang for the adjustment process.

As for the use of Fund resources, I agree that programs with a more pronounced emphasis on structural adjustment may be more satisfactorily framed in the context of the extended Fund facility. Thus, I welcome the proposed discussion on the revitalization of this facility.

Regarding the compensatory financing facility, I have already expressed my views on the timing and format of the discussions and am ready to proceed with an initial preliminary discussion in November, with a view to a second round prior to the spring meetings of the Interim and Development Committees. I also agree with the proposed timetable regarding the enhancement of the structural adjustment facility.

As for program design and conditionality, we made some concrete proposals during the Board's recent preliminary discussion on the role of the Fund in adjustment with growth, in order to deal with the issues contained in the G-10 and G-24 reports. More specifically, we identified two general areas for discussion: the design and implementation of Fund programs; and financial issues. It would appear--from the description of the papers

related to these discussions--that many of the aspects related to design and implementation will be covered in the papers scheduled for mid-December, although it also seems that the issues related to conditionality will be considered at a later stage. In any event, I would think that the paper entitled "Monitoring of Structural Adjustment in Fund-Supported Programs" should include a substantial discussion of conditionality, focusing on the various issues raised in the G-24 report.

On several occasions, this chair has mentioned the need to study in detail the impact of debt in the context of stabilization programs. Some of the issues involved have surfaced in our seminars on the impact of inflation on fiscal deficits, and in our recent discussion on inflation, fiscal adjustment, and heterodox policies. I hope that these problems will be specifically discussed in the papers reviewing the design and implementation of Fund programs.

The papers on the impact of Fund programs on income distribution, on fiscal aspects of Fund programs, and on the rationale for fiscal policy conditionality, as well as the studies on the conceptual and empirical basis of growth-oriented programs are welcome. These studies should be structured with a view to integrating their contributions into our discussions on the general review of Fund programs.

The staff paper related to innovations and institutional changes in the financial markets will be discussed on November 18. Perhaps it would be useful if the staff could issue a short supplement dealing with recent events in the financial markets and some of the technical factors that have influenced market behavior, as well as the impact of these technical factors on the evolution of and trends in these markets.

In reviewing the debt strategy, it will of course be necessary to deal with the impact of the economic environment resulting from the current state of financial markets on the situation of indebted countries and on debtor/creditor relations.

Work on the Ninth General Review of Quotas should proceed as quickly as possible. I wish to associate myself with Mr. Kafka's comments on the budget review.

Mr. Ismael made the following statement:

The proposed work program, though very ambitious, is in accordance with the guidance given by the Interim and Development Committees. Therefore, I fully endorse the program.

There is a broad consensus that one of the major objectives of the surveillance activities of the Fund is to improve the coordination of economic policies among major industrial countries so that the world economic growth can be improved, and external imbalances of the major industrial countries can be reduced. The discussions in the Board before the 1987 Annual Meetings and the Annual Meetings provide a clear general verdict: there is an urgent need for the United States to reduce its budget deficit and for surplus countries to pursue more expansionary policies. The recent instability in the exchange and stock markets tends to reinforce the broad consensus regarding what needs to be done in the major industrial countries, and this consensus now needs to be translated into practical measures. As part of the Fund's surveillance activity, we should monitor very closely the developments in these particular countries; should actual developments deviate from the intended path, the Managing Director should use the supplementary consultation procedures, as was agreed during the Board discussion on the use of indicators. Developments in the major industrial countries should be monitored through the use of a limited set of indicators, and the results should be made available to the Board on a quarterly basis. If the Board agrees, a quarterly review of developments--initially focused on the three major industrial countries, and based on a limited set of indicators should become a regular feature in our work program. Supplementary consultation procedures could also constitute a useful means of making surveillance more effective, especially with large industrial countries, and these procedures should be used more frequently.

On the use of Fund resources, I welcome the recognition given in the work program to the extended Fund facility, which could play a crucial role in facilitating structural adjustment and economic growth. The Fund's attitude toward the extended Fund facility has been somewhat erratic since the facility's inception. The extended Fund facility gives recognition to the fact that structural adjustments take time to bear fruit, and that financial assistance over an extended period could therefore play a useful role. The unwillingness of the Fund to activate this facility in the past has been due to difficulties in formulating and monitoring structural policies. But the Fund has largely overcome this problem, as it has gained considerable experience with structural reforms in the context of the stand-by arrangements and the structural adjustment facility. The proposed examination of how to revitalize the extended Fund facility is therefore timely and appropriate.

Under the proposed work program, the Board will examine various ideas on how to improve program design and make conditionality more effective. I welcome the increasing emphasis being placed on growth-oriented adjustment, but this new focus on growth should also be accompanied by an increased flow of resources

from the Fund. This chair would like to see a less conservative application of the guidelines on access, a position supported by a number of Directors on earlier occasions. The average annual access over the last three years has been reduced from approximately 90 percent of quota to approximately 40 percent. This is a matter of great concern, as it could send the wrong signal both to the member countries and to private creditors in general. Management should, therefore, consider a more liberal application of the guidelines on access for countries undertaking effective adjustment, so that the need for growth could be better accommodated.

Trade policies in the major industrial countries are particularly important. I welcome the proposed collaborative study by the staffs of the Fund and the World Bank on the impact of industrial countries' trade policies on the developing countries, since the growth potential--as well as the balance of payments prospects--of many of the countries in my constituency depends heavily on access to markets in the industrial countries. I hope that a discussion on this subject could take place before the spring meeting of the Interim Committee. This chair would also be interested in regular reports--perhaps on a quarterly basis--on new trade policy developments in the major industrial countries. I also attach particular importance to the issues raised in the G-10 and G-24 reports, and I can endorse the Managing Director's view that we should concentrate our efforts on those areas where genuine progress can be made toward a consensus.

Finally, on administrative matters, I would like to inquire about the progress of the report by the Joint Bank/Fund Committee of Executive Directors on Staff Compensation, and the likely timetable of the Executive Board discussion on this matter.

Mr. Prader made the following statement:

The Managing Director's statement has effectively identified and organized the major issues that will occupy the time of the Board and the staff between now and the April 1988 meeting of the Interim Committee. My statement will therefore focus on some aspects of central importance, and also on one area where the organization of the papers seems to be hampering progress with a major policy issue, namely, the Ninth General Review of Quotas.

I support the Managing Director's initiative on the enhancement of the structural adjustment facility as an important element of the Fund's role in the debt strategy. The work program before us does indeed seem to contain all the requirements for a timely and successful completion of the discussions on the enhancement of the structural adjustment facility. We seem to

have made substantial progress in this area, and we should try to maintain our momentum by adhering to the calendar of meetings outlined at last week's informal meeting on the structural adjustment facility.

The need to concentrate on finalizing the enhancement of the structural adjustment facility must not, however, divert our attention from the larger aspects of the debt strategy: in the light of the difficulties of the heavily indebted countries, issues related to the structural adjustment facility form only a small, if extremely worrisome, part of the overall picture.

With respect to the debt issue, I would suggest a more comprehensive discussion of the interaction of the Fund and the commercial banks. I have noted on several occasions that some elements of the menu approach decrease the pressure on the commercial banks to participate in debt management. This has raised the specter that the Fund might be left to finance problem countries alone.

I am pleased that the Managing Director has taken up the reports of the Group of Twenty-Four and that the moment is at hand for a serious discussion of world monetary affairs and for tackling a number of crucial issues.

I also welcome the idea that lessons for the functioning of the international monetary system are to be drawn from the experience of the European Monetary System. Recent events in the exchange markets, and their repercussions on the G-7 agreement, seem to corroborate the view that more systematic use of the exchange rate in the indicator exercise is called for. This Board would be remiss if it failed either to reflect on the reasons why the G-7 exchange rate agreement encountered a crisis, and or to discuss the implications of that crisis for managing exchange rates, central bank liquidity, and other matters. Our survey of this issue should embrace the question of the steps that are necessary to promote better coordination of monetary and exchange rate policies.

I agree with Mr. Lankester that the review of Fund programs and conditionality should be somewhat more structured than in the past. For instance, the fiscal aspects of Fund programs have been under discussion for over a year. This review should be approached more systematically, by centering the work around the medium-term aspects of the balance of payments, since the underlying reasons for countries' requests for financial assistance from the Fund are of a systemic and structural nature. In addition, I support Mr. Dallara's proposal for a full study of the inclusion of structural and systemically oriented reforms in the design of Fund programs.

Given the heavy work load of the Board and the array of opinions--in the Board and in the Interim Committee--concerning the SDR, I see no immediate need for an extended and thorough SDR discussion as proposed. If such a discussion does take place, then--at a minimum--the papers on the transfer of resources and on issues pertaining to postallocation adjustments in the SDR distribution should be dealt with at the same time. In any event, the most practical issue to be examined may be the possibility of combining a quota increase with an allocation of SDRs.

Further technical discussions about the variables to be used in the quota formulas for the Ninth Quota Review seem more likely to produce delays than progress. They will only delay the Board, already overburdened and operating under a tight schedule, in endless technical discussions which everyone knows will finally be cut short by a decision made on the basis of judgmental factors. If it were decided to continue the discussion on the basis of the formula used for the Eighth Quota Review, we could then wait to resume such a discussion until a qualified majority of countries felt that there was a real need for a new quota increase. That approach would also give more time to some governments and parliaments which are not in a position to agree to a quota increase. I am therefore disinclined to continue these burdensome technical discussions of doubtful utility and prefer instead to wait for the right moment to resume the quota review discussions on the realistic basis of the formula used for the Eighth Quota Review.

Mr. Grosche said that he agreed with the Chairman that it was very important to adopt a manageable work program, and that efforts should indeed be concentrated on those areas where genuine progress could be made. He broadly supported the suggestions outlined in the Chairman's statement.

He particularly welcomed the staff proposal to extend the coverage of the medium-term scenarios to major country groups in the developing world, Mr. Grosche commented. He hoped that that extension did not add too much to the work load of the Research Department.

In his statement the Chairman had noted that the extended Fund facility had not been used very much recently, Mr. Grosche remarked. That outcome was the consequence not so much of a deliberate Fund policy, but of the unwillingness or inability of many countries to agree with the Fund on the details of a medium-term adjustment strategy, an agreement that was necessary before an extended arrangement could be implemented. He agreed that the extended Fund facility had the potential for a greater role in the current circumstances, provided that member countries were willing to suggest the appropriate policy framework and to make the necessary multiyear commitments. He was not in favor of changing the facility to have it used more often; rather, he wanted to see policies put in place that would allow greater use of the facility.

He welcomed the current empirical study on the impact of Fund-supported adjustment programs on the poor in a sample of countries, Mr. Grosche said. He hoped that any conclusions to be drawn from the study for the design of Fund-supported adjustment programs would make it clear that the programs were macroeconomic programs, and that the decision on specific measures and responsibility for their effects on the distribution of income lay solely with the authorities. An attempt should be made to describe the impediments to domestic policies which in several cases had prevented the poor from benefiting as fully and as quickly as possible from growth-oriented adjustment policies. The staff should provide further details on the proposed separate study of fiscal aspects of Fund programs.

SDR matters should not be given a high priority, Mr. Grosche considered. The question of further allocations could be considered in the context of an informal inquiry, such as that conducted prior to the 1987 Annual Meetings. The work program should not be burdened by such issues as the role of the Fund in the international monetary system, issues that in the past had not resulted in much progress toward a consensus.

There was a heavy concentration of important policy items in January, Mr. Grosche noted. It was difficult to prepare thoroughly for a series of complex Board meetings shortly after a vacation period, and around Christmas and the New Year holidays it was very difficult to have important items thoroughly prepared, particularly if the distribution period was relatively short. Perhaps some re-examination of the agenda might be possible.

The timetable of the Joint Bank/Fund Committee of Executive Directors on Compensation remained broadly on the schedule that had been set in December 1986 when both Boards had agreed to fund an additional survey, Mr. Grosche remarked. That survey was being undertaken, and data should be available by early December 1987. The substantive work of the Committee could then begin, and could be concluded by the end of January, when the report would be finalized. That report should still be delivered as planned to both Boards and both managements in April, so that the current compensation system could be reviewed by both Boards during the summer of 1988.

Mr. Nimatallah said that he welcomed the proposed revival of the extended Fund facility and the extension of the world economic outlook exercise to strengthen the analysis of economic interactions among groups of industrial and developing countries, and of the impact of trade policies. Trade policies in particular deserved further attention.

Both the compensatory financing facility and the external contingency facility might be presented together in the paper that was to follow Board discussion on November 16, Mr. Nimatallah remarked. That proposal could, however, be discussed at that Board meeting.

The numerous technical papers that were planned on the subject of the Ninth General Review of Quotas seemed likely to delay matters considerably, Mr. Nimatallah commented. He was also unsure as to the purpose of the related draft resolution for approval by the Governors. He wondered whether the adoption of that draft resolution by the Board of Governors was in fact necessary.

The Chairman said that the draft resolution was a legal requirement; its adoption by the Board of Governors was necessary for the implementation of the Quota Review.

Mr. Nimatallah said that he welcomed the biennial report on overdue financial obligations to the Fund, and the inclusion of further analysis of penalty charges. In making its analysis the staff should refer to his statement on those issues of January 6, 1987, in which he had particularly focused on countries that were able but not willing to pay their obligations. There was clearly a need to pursue further actions against those countries, but not against countries that were willing but not able to pay their obligations. He hoped that the enhancement of the structural adjustment facility would enable that latter group of countries to become current in their obligations to the Fund. The staff should look at the possibility of coordinating between the Fund and the World Bank the possible declarations of ineligibility. At the time of the biennial review, the Board would also discuss some existing papers pertinent to legal aspects of that matter.

The staff paper on the Fund's fiscal year should be discussed together with the annual midyear budget review, on December 21, 1987, so that a rapid changeover could be made should the Board opt to switch to a new fiscal year coincident with the calendar year, Mr. Nimatallah remarked. He hoped that that change would occur, so that discussions on the budget would no longer occur just before the Interim Committee meetings--a particularly busy time for the Board.

Mrs. Ploix said that the work program for the coming six months did not raise any major difficulties for her authorities. As regards the structural adjustment facility and the compensatory financing facility, the Board would have to proceed in a timely manner, in order to permit the consideration of discussions before the end of the year and before the next Interim Committee meeting, respectively. She was satisfied that the review of conditionality would include a debate on the extended Fund facility, and her authorities favored its reactivation because of its longer-term perspective.

In the proposed follow up to the Board discussion on the international monetary system, she was pleased to note that the question of an "anchor" against inflation would be taken up, Mrs. Ploix remarked. As for the Ninth Review of Quotas, the proposed program clearly indicated that the work would continue.

On the occasion of the next regular review of the Fund's income position, a discussion on the financial terms attached to the Fund's credits should be initiated, Mrs. Ploix continued. Actually, those credits were no longer concessional, in part due to the upward adjustment in the rate of remuneration. Attempts could then be made to explore methods of restoring a certain degree of concessionality to the Fund's operations.

The numerous discussions scheduled on the role of the Fund, as reviewed in the G-24 and G-10 reports, should be organized in a more structured or coordinated manner, Mrs. Ploix said. Such an approach would be good preparation for discussion at a later stage.

Better working conditions would be secured if fewer Article IV consultations were scheduled during the month preceding the Interim Committee, Mrs. Ploix remarked. It would therefore be highly advisable to conclude as many country discussions as possible before the end of the year and in the beginning of 1988.

Mr. Lankester said that he agreed with the Chairman that the Board should concentrate on areas where genuine progress toward a consensus could be achieved. Generally, whenever possible, Board attempts should be made to find places where papers could be conflated, issues could be dealt with more summarily, and where there might be scope for postponing the discussion of the more detailed analyses. Such areas were difficult to find, but it did seem somewhat unnecessary to have four separate papers on the SDR. He also had some sympathy for Mr. Prader's suggestions about the quota review. Although the planned papers were necessary, further intensive work by the staff should not be called for, unless that work related to areas where consensus building could be achieved.

He wondered whether some of the issues on conditionality might be covered in fewer papers, perhaps by combining some of the envisaged four or five different papers, Mr. Lankester continued.

In general, the program set out was sensible, although there might be some room for reducing the work load, Mr. Lankester remarked. He welcomed the proposed extension of medium-term scenarios to major developing countries in the next world economic outlook. He also welcomed the proposed paper on a commodity index as an indicator. He hoped that that paper would cover both the relatively simple idea proposed by the Governor for the United Kingdom that the indicator should reflect global, monetary, and economic conditions, as well as the potentially much more complex proposal from the Governor for the United States.

The proposal for handling the structural adjustment facility was not clear to him, Mr. Lankester remarked. He, too, would like the negotiations on enhancement to be completed by the end of the year, and to that end two discussions might not be sufficient. In particular, the proposed discussion of the financial arrangements in early December would need to

be preceded by a preliminary discussion, and perhaps a seminar as well, since there were some extremely important and complex issues involved, especially those relating to credit risk and liquidity. His authorities attached great importance to those issues.

The Chairman said that there would in fact be four discussions, rather than two; and that each of the discussions would be preceded by a seminar-like discussion a few days beforehand, in order to ensure that a decision could be taken at the end of the formal discussion.

Mr. Lankester noted that a number of papers had been proposed on the debt strategy. It was sensible to keep the discussion of some of those issues separate. There had already been a discussion in November on innovations and institutional changes in the financial markets, and some papers on the debt strategy and operational issues were scheduled for early in 1988.

His authorities attached considerable importance to the proposed paper on the use of approval in principle, Mr. Lankester remarked. As he had indicated in the latest discussion on Costa Rica, he hoped that the paper would contain a full review of the use of Article VIII, Section (a) or even Section (b), including both the history of the Article and some proposed uses in the future.

Two papers had been proposed on trade issues, Mr. Lankester said. He wondered whether the date of the discussion on the general paper on the relationship of trade to macroeconomic imbalances, and on the Fund's role in that area, might not be brought forward. That discussion would be more likely to be helpful to the Uruguay Round if it could be held before the next Interim Committee meeting rather than before the next Annual Meetings.

He wondered when the full-scale review of the pension plan was to come before the Board, Mr. Lankester continued. He hoped that the review would be of a fundamental nature and would include such issues as transferability. After a staff member had been at the Fund for many years, the disincentives to transfer out were substantial, partly as a result of the way in which the pension plan had been drawn up.

Mr. Sliper said that there was a need to concentrate on those areas where genuine progress could be made toward securing a consensus. The program was very full, raising the question of whether too much was being attempted. However, in looking at the individual topics, there seemed little scope to cut particular items or papers. He agreed that the technical papers on SDRs could be accorded a somewhat lower priority, especially given the present impasse on SDR matters.

He broadly supported the work program as formulated, Mr. Sliper continued. He looked forward to the informal discussion of exchange rate developments on November 13, and particularly welcomed the indication that that discussion would take into account more recent trends, including the

recent stock market crash. He understood management's reluctance to get involved too quickly in that area, as that might raise expectations. However, he had received requests from a number of his authorities as to the Fund's views on the economic implications of recent trends. Those requests reflected the high regard that national capitals generally had for the professionalism of the Fund.

He agreed with Mr. Lankester that there seemed to be some scope for combining topics in the area of program design and conditionality, Mr. Sliper said. That observation was not intended to downplay the issue, but was meant to suggest a way to conserve both staff and Board time.

His chair attached particular priority to the paper on approval of arrangements in principle which was scheduled for March, Mr. Sliper commented. That paper would be sandwiched among several other papers on debt, presumably as part of the preparation for the April Interim Committee meeting. Given the scheduling gap pointed out by Mr. Kafka, the paper should be brought forward to February, if possible.

His authorities considered that the issues concerning the Ninth General Review of Quotas should be resolved as quickly as possible, as that the Fund should continue to press ahead with work in that area, Mr. Sliper remarked. His chair attached very high priority to the comprehensive paper on trade issues. Like Mr. Lankester, he wondered whether the timing of the paper--promised before the 1988 Annual Meetings--was consistent with the intention to contribute to the progress on the Uruguay Round of GATT. A somewhat earlier discussion date would have been more helpful.

During the discussion of the work program in May, the Chairman had indicated that the topic of technical assistance was under review, an indication that his chair had welcomed, as island members of his constituency attached particularly high priority to such assistance, Mr. Sliper commented. He would welcome a comment as to the likely scheduling of that topic.

Mr. Posthumus said that he generally agreed with the work program before the Board. He particularly welcomed the addition to Board agenda of topics related to the functioning of the international monetary system.

The coming Board discussion on recent exchange market developments could usefully have a somewhat wider range than usual, Mr. Posthumus remarked. The Board's few such discussions had not been very successful. He hoped that the next discussion would be more fruitful, and, in particular that the Executive Directors from the larger countries would take a more active role.

So far as the world economic outlook was concerned, the Fund's task was to continue to develop and to refine the evolving approach of using alternative medium-term scenarios to support international cooperation

and the coordination of economic policies, Mr. Posthumus continued. It was important, indeed, to include major developing countries in that exercise. An evolving approach did not, however, necessarily mean an expansive approach. The Fund's responsibility was not limited to the development of economic models which included more countries by groups of countries and more indicators, and which could then be used to construct more sophisticated alternative scenarios. The Fund's responsibility was also to stress that international cooperation efforts were not a substitute for sound national economic policies. It was possible that individual countries looked to international cooperation as something for other countries to develop, but the Fund should be careful not to provide the analytical basis for such an approach.

A second element of the Fund's responsibility was to work only with indicators and scenarios that fell within the limits that policymakers could take into account when taking decisions, Mr. Posthumus noted. Scenarios could help to select a certain combination of policies, and indicators could help to identify the real issues and the policies required. But it should always be clear that both scenarios and indicators had limited value in forecasting outcomes. In particular, more precise scenarios and forecasts limited the room for maneuver for policymakers, because they limited the room for judgment. In presenting its work to policymakers, the Fund should bear those points in mind.

Much attention had been devoted in the Chairman's statement to the issue of growth-oriented adjustments in the context of structural adjustments, as well as to the issue of external contingencies, Mr. Posthumus remarked. In the discussions on economic policy in the industrial countries since the beginning of that decade, the concept of structural adjustment had gained increasing importance, along with the realization that expansive monetary and fiscal policies were often unsustainable and ineffective in furthering economic growth. That conclusion, of course, did not mean that demand-oriented policies were no longer important. They were particularly important in countries with extremely large imbalances. Unsustainable deficits on the balance of payments could not become sustainable through structural adjustment alone; restrictive demand management often remained necessary, if only because expansionist demand management too often created problems.

Restrictive demand management was not enough; structural adjustment measures were required in addition, Mr. Posthumus noted. He wondered, however, how to distinguish developments that should be dealt with under the external contingency process from all those developments that caused a country to seek a stand-by arrangement. While contingencies might endanger the completion of adjustment programs, such programs often involved adjustments to, inter alia, external contingencies, and to past inadequate policy responses to such contingencies.

On scheduling, he wondered why the second paper on the enhancement of the structural adjustment facility had been rescheduled from November 23 to November 20, Mr. Posthumus said.

Mr. Sengupta made the following statement:

My observations are mainly to seek clarifications and to suggest the issues that may usefully be covered in the proposed papers.

I agree that the medium-term focus of the last world economic outlook exercise was useful, in that the alternative scenarios helped to clarify the feasibility and desirability of economic outcomes over the medium term for the major industrial countries. I would welcome any efforts to refine this approach. I also support the logic of extending the coverage of medium-term scenarios, but, given the existing resource constraints, I am not sure how cost-effective it would be to have a large coverage at this stage. I am not opposed to extending such scenarios to all countries, including developing countries, but the resources needed for that project would be disproportionately large relative to the impact of these countries on world trade and activity. If, however, it is the consensus of the Board that medium-term scenarios should be drawn up for major developing country groups, we should be clear about the group classification to be chosen for the purpose. It would be most useful in such an event if the staff could circulate a note on the preferred group classification, together with the reasons for such a choice.

In this connection, I wish to reiterate that more attention should be paid to exchange rates in the indicator part of the exercise, and a mechanism should be worked out to determine which alignments of exchange rates are both sustainable and desirable, even if equilibrium is not discussed. Of course, analyses of market-sensitive variables should be highly confidential and should not be made public. My suggestion gains considerable importance in the light of the U.S. Governor's proposal to foster a "stable" currency relationship--or alignment--to an inflation indicator in the form of a commodity basket. While I eagerly await the staff study on the operational aspects of such a basket, I would like to know how the staff plans to relate that basket to the appropriateness of the exchange rate itself. If that alignment is not in equilibrium, relating it to an inflation index may exaggerate the misalignment. Mr. Salehkhrou's idea concerning the inclusion of some manufactured tradables in the basket, along with primary commodities, should be carefully examined.

In the section entitled "Access to and Use of Fund Resources," a proposal is made to examine methods of revitalizing the extended Fund facility. I welcome this change in the Fund's thinking on the subject, and I hope that the staff study will take fully into account the G-24 proposals on this subject. In fact, the Group of Twenty-Four specifically mentioned a possible interest rate subsidy in this connection. In view of the emphasis given

by most Governors in recent Interim and Development Committee meetings and Annual Meetings to studying the G-24 proposals, the suggestion for an interest rate subsidy should also be examined in the paper dealing with the revitalization of the extended Fund facility. I would strongly urge that the staff should carefully examine the specific proposals of the Group of Twenty-Four in all papers now being prepared on those subjects.

The work program mentions a study on external contingency mechanisms, as specifically proposed by the Group of Twenty-Four and the Governor for the United States, in the context of the comprehensive review of the compensatory financing facility. The G-24 proposals are, however, not limited only to the compensatory financing facility. I would strongly urge that, while the external contingency mechanism could be discussed in the context of the review of the compensatory financing facility, it should not be limited only to that context; there should be a discussion of contingency mechanisms in the context of Fund arrangements, including stand-by or extended arrangements. A separate paper on the role of contingency mechanisms in growth-oriented adjustment programs should therefore be prepared and examined before the next Interim Committee meeting.

In the section on issues in program design and in conditionality, I noted with satisfaction that there will be two initial papers on some of the analytical and empirical issues in carrying out "growth exercises" in the context of the design of Fund-supported programs. I welcome your proposal to study the monitoring of structural adjustment in Fund-supported adjustment programs. That study should not be limited solely to monitoring, but should discuss all the conditions that are essential for the implementation of structural adjustment, including the availability of adequate financing and the appropriate design of the financial programs. To underline the fact that having such monitoring does not necessarily mean increasing conditionality, I would suggest a change in the title to "Implementation of Structural Adjustment in Fund-Supported Adjustment Programs."

In this context, I agree with Mr. Kafka and Mr. Ortiz that the staff should prepare a full-fledged paper on the conditionality issues on which the G-24 proposals have been specific and detailed. This paper should include a full review of the performance criteria. The main points of the G-24 proposals on this subject are as follows: performance under Fund-supported programs should be assessed on the basis of a minimum number of performance criteria; a distinction should be made between performance criteria relating to policy instruments and those relating to program targets, with the latter being confined only to external variables; quantitative performance criteria should be defined not in precise numbers but as ranges; performance criteria should accommodate growth requirements, the criteria concerning

the fiscal deficit should take into account the minimum public sector investment needed for balanced growth; and the performance criteria should be adjusted in accordance with "contingency mechanisms" in response to unforeseen exogenous developments--the details of which have been spelled out in the G-24 report.

I note the proposal to study the fiscal aspects of Fund programs, including the rationale of "fiscal conditionality." I hope that such study does not result in additional conditions. Such study is not proposed in either the G-10 or the G-24 reports. Considering the staffing constraint, this theme may not be worthy of a full-scale staff paper before the next spring meetings. Fiscal aspects of adjustment could indeed be considered together with monetary, exchange rate, and other structural aspects in the paper on conditionality, but why should primacy be given to "fiscal conditionality"?

Not much attention is given in the work program to the financing matters, other than aspects of the Ninth General Review and the debt strategy. Issues such as the General Arrangements to Borrow, enlarged access policy, and concessionality in Fund lending--on which the Group of Twenty-Four has made proposals--have not been touched upon. Perhaps these aspects are not mentioned, because of apprehension that there would not be much time to discuss them before the next spring meetings. In that event, it would be useful to note that they could be taken up immediately after the next spring meetings.

Finally, there is the implementation of the mandate from the Interim Committee, which asked the Executive Board to examine the G-24 proposals. Obviously, all the issues raised in the G-24 report cannot be fully discussed, and discussions on some of the issues will have to be ongoing, especially in view of the very welcome decision to examine the whole question of international monetary reform. But for the next Interim Committee meeting, I hope that the staff will produce a paper--to be brought to the Board for a comprehensive and integrated discussion--pulling together all the issues covered in the G-24 and G-10 reports that we will discuss in the next six months under various different headings. The summary of the Board discussions on that paper can be forwarded to the Interim Committee to inform it of the status of the Board's consideration of the G-10 and G-24 reports.

I have suggested some marginal additions to the work program, but they should not be very difficult for the staff. If one or two of the papers that have been mentioned--perhaps on fiscal conditionality--have to be dropped, that would be acceptable.

If it is decided that we will not have a quota review this year for technical or other reasons--although I do not agree with that proposition--a case could be made for postponing the relevant considerable staff work until after January 1988.

The Chairman said that he was not sure that Mr. Sengupta's proposal to shift some staff resources was workable, because there was a good deal of specialization needed to prepare specific papers, and the staff members who would prepare the papers needed for the quota reviews might not be as good in handling questions the use of Fund resources.

Mr. Fogelholm made the following statement:

Let me begin by noting the areas and items to which I attach the highest priority. The first is the conclusion of the enhancement of the structural adjustment facility. The issue of burden sharing is essential in this context. The second area is the world economic outlook. Indicators should be further developed and designed so as to trigger policy discussions. I favor extending the scope of the medium-term scenarios to include the newly industrialized countries, middle-income countries, and low-income countries. Third, I look forward to a broad discussion of the issues related to conditionality. The contingency mechanisms, for instance, warrant further elaboration. Also, a discussion of the effects of properly implemented stand-by arrangements on economic development and adjustment in the longer term seems important in view of the increased emphasis on structural adjustment. The fourth issue is the role of the Fund in the debt strategy, particularly, the relationship of the Fund's decision making to the commercial banks for example, the practice of approval in principle.

The Ninth Quota Review should be completed as expected, but I share Mr. Prader's view that it does not seem useful, at this stage, to spend a lot of time on the technical issues; like Mr. Lankester, I think that no further studies should be planned. Similarly, nothing much new can be expected from further studies on the SDR and consequently, they should be given low priority.

Trade policy issues are important, but in order to avoid duplicating the work of other international organizations, the Fund's analysis should--whenever possible--be based on work done elsewhere. I agree that we should try to bring forward the comprehensive paper on trade issues, in order to have a more forceful impact on the Uruguay Round of GATT.

It would be beneficial to deal in seminar sessions with the staff papers on program design, unless a decision needs to be taken on a certain issue.

I generally share Mr. Kafka's views on the distribution of the work load. The Board will, on average, deal with five Article IV consultations and other country matters each week. But in the upcoming two weeks, for instance, only four such reviews have so far been scheduled, instead of the ten required

to meet the average work load. We will therefore probably experience a bunching problem in later weeks, which could harm the discussion of both country and policy issues. I would appreciate having the most even distribution of work that is possible.

There is no reason for complacency, even though the efficiency of the Board's work has already improved considerably. I hope that the Board will start experimenting with the different ideas put forward during the informal meetings held by the Managing Director on the improvement of the Board's procedures. The seminars in particular would stand to gain substantially, as they are today not very different from regular sessions. I realize, of course, that those of us who may not speak in our native tongues in the Board are confronted by a tougher task, but it would be quite possible for us to prepare for a discussion in which we would be addressing one topic at a time in a dialogue form.

Mr. McCormack said that the proposed program was ambitious, and deadlines were tight. There was little to be said about the actual content of the program as that had been mandated by the Interim Committee. The Board should certainly concentrate on areas where genuine progress toward consensus was possible; on this basis, the topic of SDR allocations seemed to be one where there might be some truncation of effort.

A general procedural point was that the schedule should be adhered to more closely than had been the case in the recent past, Mr. McCormack commented. The shifting of dates for Board discussions had upset work plans in member countries, making it difficult for them to react in a timely, and more important, considered manner. So, while he sympathized with some of the comments that had been made about the tightness of the schedule, self-restraint should be exercised in calling for changes to announced schedules.

There had been a very useful process of evolution in the world economic outlook exercise, and in the incorporation of indicators and medium-term scenarios into the work of the Fund, Mr. McCormack noted. That incorporation had deepened the Fund's understanding of the issues involved, and he welcomed as further development the proposal to extend the coverage of the medium-term scenarios to major country groups in the developing world. He had also been interested in the U.S. Governor's proposal for an additional indicator in the coordination process, and he looked forward to an analytical paper on that topic addressing the question of whether, and in what precise ways, such an indicator could be useful in the overall coordination exercise.

On other aspects of surveillance, he looked forward to the broad-ranging review scheduled for March 7, 1988, Mr. McCormack remarked. A regional dimension was certainly needed, and was particularly important

for constituencies such as his own, which contained a large number of countries in the Caribbean region. That review should also take into account Fund experience with the treatment of trade policy issues in the various Article IV consultation reports.

He welcomed the Chairman's proposal regarding the extended Fund facility, as its medium-term horizon and structural orientation were valuable in present circumstances, and that work should proceed expeditiously, Mr. McCormack continued. The Interim Committee had encouraged the Board to complete work on the compensatory financing facility by the time of the spring meeting, but that might be a difficult goal to achieve. Two papers on program design and conditionality were scheduled for discussion in December, Mr. McCormack remarked. He wondered whether the discussion of those papers could not be brought together to reduce the Board's work load. He strongly welcomed the proposed empirical study of the impact of Fund-supported adjustment programs on the poor. That subject was, in many respects, at the heart of the Fund's work. He also looked forward to the paper on fiscal aspects of Fund programs, a question that also raised basic issues; he particularly welcomed the attention that was to be given to structural issues in that connection.

On capital markets, he was interested in the forthcoming discussion of financial innovations, and agreed with Mr. Ortiz that some supplementary material with a technical focus dealing with recent developments would be helpful on that occasion, Mr. McCormack continued. He attached particular significance to the discussion of "approval in principle," the importance of which had been highlighted in the interesting recent discussion on Costa Rica. The general paper on issues in the debt strategy might best be dealt with in the seminar format, particularly if that format could be somewhat more flexible than had been the case in the past. He hoped that the debt strategy seminar would perhaps reach the level attained in the seminar on heterodox stabilization policies, when there had been a good deal more genuine dialogue than on previous occasions.

He attached considerable importance to examining how the Fund could play a positive role in the Uruguay Round, and how best the Fund could collaborate with the GATT to improve trade surveillance, Mr. McCormack said. Those points had been discussed in September, and also in the Per Jacobsson lecture during the 1987 Annual Meetings. He tended to agree with Mr. Lankester and Mr. Sliper that perhaps the timing of the comprehensive paper on trade could be brought forward, given the importance of the issues involved.

Mr. Dallara said that he supported the overall design and thrust of the proposed work program and would limit his comments to those areas that he believed deserved special attention, or those where he had particular suggestions of emphasis.

First, with respect to the world economic outlook, surveillance, and indicators, Ministers and Governors had sent the Fund a clear message during the Annual and Interim Committee meetings, that efforts toward international

economic policy coordination must be intensified, Mr. Dallara continued. At a minimum, the markets had underscored that message, and that had to be one of the Fund's highest priorities during the months ahead. The Fund clearly had an important role to play in that effort, through the world economic outlook exercise, through Article IV consultations, and through the Fund's support of G-7 process via the personal role of the Chairman.

The Fund would indeed have to develop the use of medium-term scenarios in the world economic outlook exercises, a process already well under way, portraying and analyzing alternative sets of medium-term goals and objectives, Mr. Dallara noted. He welcomed the proposed extension of those scenarios to developing countries, and believed that as the Fund worked to develop the criteria for judging the sustainability and desirability of key variables--following the Interim Committee's suggestions--more progress could be made in integrating the medium-term scenarios more fully into the indicator analysis itself. He welcomed, in addition, the proposed consideration of the U.S. Governor's idea of using a commodity price indicator--which included gold in a basket of commodities in the coordination process, together with related suggestions by other Ministers. He also welcomed the proposed paper on that subject, but noted that that paper should add to, rather than detract from, the other work in progress on indicators. The Fund could perhaps become so enamored with exploring that new idea that the fundamental work on domestic policy variables and other international variables might receive less attention. Both of those analyses should proceed with the appropriate emphasis and attention.

The plans for more general work on the functioning of the international monetary system were welcome, and consideration could be given to relating that work to upcoming Board discussions of economic policy coordination and indicators--perhaps through the discussion of a more general paper, Mr. Dallara remarked. Such a paper could be a companion piece to the papers to be discussed in early January on indicators and coordination. One paper might perhaps be discussed on January 8, and other possibilities could perhaps be explored either in a seminar or in a formal Board discussion.

The Board would have to conclude its biannual review of the principles of surveillance by early April 1988, Mr. Dallara said. While many Directors had considered it premature to discuss revising the principles during the discussion of July 1987, he wondered whether ensuing developments had suggested the possibility of reflecting on that issue during the months ahead. There was now even greater concern that the principles might be anachronistic; allowing them to become irrelevant could have serious implications for the effectiveness of the Fund during the period ahead. A short staff note on the principles, perhaps in the spring, before the April discussions, would be welcome. Directors had suggested several months ago that further experience would be necessary before the Fund could consider revising the principles. That the Board had criticized developing countries for studying issues to death before acting, even in an initial phase, to deal with adjustment problems--a criticism which, of course, had relevance for many industrial countries as well.

Regarding the use of Fund facilities, he looked forward to the work on the extended Fund facility and the compensatory financing facility, including the preliminary exchange of views on the proposal for an external contingency facility, Mr. Dallara continued. A question and answer period during the coming weeks could provide a basis for more comprehensive discussion during the months ahead. Serious limitations regarding U.S. participation in the enhancement of the structural adjustment facility notwithstanding, he continued to support that initiative, and welcomed the progress that had already been made since the 1987 Annual Meetings. He looked forward to both the informal and formal discussions of the modalities, and of issues relating to monitoring, access, and conditionality. He recalled that Secretary Baker had made a number of proposals during the 1987 Annual Meetings that were intended to strengthen the policy framework process, and he trusted that those proposals would be addressed, at least in a preliminary fashion, in the paper on monitoring, so that the Board could have an exchange of views on those issues.

He looked forward to the extensive opportunities available for considering program design and conditionality, Mr. Dallara commented. Secretary Baker had put forward several proposals in that area which involved a package of suggested policy changes--including an adjustment in the frequency with which countries were required to meet performance criteria in some Fund programs, and the inclusion of structural measures in program design. He looked forward to consideration of those and many other proposals now being developed. In that connection, he supported the suggested separate paper on the fiscal aspects of Fund programs, in which consideration should be given to an important institutional issue: the extent to which the efforts of the Fund's Fiscal and Central Banking Departments could be more fully incorporated into program design. That was potentially a sensitive subject, but it was nevertheless important that consideration be given to the issue.

The technical work regarding quotas should be continued and a draft resolution to the Governors would be needed in spring 1988, Mr. Dallara noted. He sympathized with the suggestion of Mr. Sengupta, one embraced to some extent by Mr. Fogelholm and others to await a more favorable climate before undertaking further work on quotas, although perhaps it was not his concurrence but that of other Board members that would be the most critical in that area. Perhaps the discussion of the numerous complicated technical issues currently scheduled for early 1988 could be broken into two separate discussions that might preclude the need for the formulation a tremendous amount of analysis into tables by the staff as it tried to engage the Board on a wide range of technical issues within one Board discussion.

On SDRs, he associated himself with the comments of Mr. Lankester, Mr. Sliper, and others, Mr. Dallara remarked. On trade issue papers, he welcomed the proposed comprehensive paper and hoped that it would cover the impact of developing countries' trade policies on industrial countries and other developing countries, as the latter in particular was an area that seemed overdue for analysis by the Fund. Regarding operational

matters, he looked forward to continued work on the Special Contingent Account. Like Mr. Nimatallah, he was somewhat concerned by the limited documents and analysis now envisaged concerning the arrears problem, and he hoped that further consideration could be given by the staff to possible avenues for approaching that problem during the period ahead. Perhaps an informal Board meeting, allowing a rather frank exchange of views on some issues related to arrears, could be helpful. Mr. Nimatallah's suggestion--that the papers which had already been circulated be put formally on the Board agenda--might not in each case necessarily be the best way to proceed.

He had noted the possible timetable of the Joint Compensation Committee outlined by Mr. Grosche, Mr. Dallara commented. He hoped that the Board would be able to move somewhat earlier than was now anticipated. Finally, he noted with interest the suggestion of Mr. Fogelholm and others to make the format of seminar discussions less formal. Such a change should not necessarily be confined to seminars, and during the period ahead--and consistent with the progress already made in introducing some new modalities into Board discussions--it might be possible to find one or two policy discussions that could be considered in a less formal fashion.

Mr. Zecchini made the following statement:

I can go along with the basic thrust and articulation of the work program. I have no difficulty with any of its components. This program encompasses the major subjects that we need to discuss before the next Interim Committee meeting. I particularly appreciate the Managing Director's intention to concentrate our work on those areas where there is a reasonable expectation that progress toward consensus can be achieved. At the same time, this orientation should not detract from the need to make some forward-looking analysis of a more systemic nature, as important issues related to the evolution of the international monetary system and of conditionality are kept at the center of our work.

On the world economic outlook, I attach great importance to the development of the indicator exercise by the development of alternative scenarios, which would incorporate in particular the exchange rate indicator and a reliable--I underscore reliable--criterion to assess the possible presence of an inflationary bias in the coordination process of economic policies. Moreover, the time has come to examine whether our decision on the principles of surveillance should be updated by incorporating into the decision the progress achieved in the use of indicators, and by making a less indirect reference to the first section of Article IV.

With respect to the use of Fund facilities, the emphasis on the review of the extended Fund facility and of the compensatory financing facility is well placed. Nevertheless, the Fund seems

to deal very fragmentedly with the re-examination of its facilities, and thereby runs the risk of looking at the individual trees while losing sight of the shape being taken by the resulting forest. We are faced with a work program which deals separately with the extended Fund facility, the compensatory financing facility, the structural adjustment facility, the external contingency facility, the General Arrangements to Borrow, and stand-by arrangement conditionality. It also seems appropriate to consider all these areas on the basis of a general and comprehensive paper which could outline the profile of the Fund's set of instruments, the functional relationships among these instruments, and the consistencies or inconsistencies among the changes in the instruments that have been proposed and that are under consideration. The end result would be a better understanding of our decisions on the structure and shape of the Fund in the coming years.

As to the evolution of the international monetary system, I would like to stress that the ultimate goal of our work is to find desirable "rules of the game" on which most--if not all--of us can agree. The introduction of indicators, the revision of our decision on the principles of surveillance, and the new structuring of Article IV consultations and of the world economic outlook are all fundamental aspects of the same endeavor, which is to establish a desirable code of conduct in international economic and monetary relations, and to monitor compliance with this code more effectively.

The SDR issues are an intrinsic part of the issues related to a desirable evolution of the international monetary system. Consequently, it is most encouraging that, despite the efforts of some members, the technical SDR issues are being kept on our work agenda. In particular, the paper on exchange market interventions in SDRs seems to be of great interest.

As regards the evolution of capital markets and issues in debt management, I particularly appreciate the continuing focus on the strategic aspects of the debt issue. Devoting a separate paper to the debt strategy is a significant improvement over the past approach of incorporating this discussion in the capital market debate.

On the Ninth Quota Review, I see a real need to avoid conveying the impression that the Board is dragging its feet. The time available before the next Interim Committee meeting should be constructively devoted to deepening our analysis of the few remaining issues in this area.

As to administrative matters, the most important issue is the review of the staff compensation system. Action on this front should not be delayed, so that the Fund can avoid unnecessary

strains in the annual review of staff salaries. I appreciate the efforts made so far by Mr. Grosche and the Joint Compensation Committee in trying to speed up the compensation review.

I was surprised to see no tentative list of seminars described in the program. Since seminars are a unique occasion to debate issues freely and to introduce new ideas, it would be interesting to have more information on proposed seminars.

Mr. Yamazaki said that he generally agreed with the proposed work program. He therefore wanted to make only a few comments. On the spring 1988 world economic outlook, he supported the staff's proposal to extend the coverage of its medium-term scenarios to major developing countries. The extension would, he hoped, improve Board discussions of the world economy, which was shadowed by the international debt problem, and would strengthen Fund surveillance.

As to the use of Fund resources, he noted with interest the envisaged discussion of the extended Fund facility, Mr. Yamazaki continued. He welcomed the staff's exploration of that issue, as the extended Fund facility could be a useful aid to member countries pursuing structural reform within the context of the monetary and revolving character of the Fund.

His authorities believed that the next quota increases should be effected as soon as possible, both to strengthen the Fund's resource base and to bring the quota shares more into line with economic realities in member countries, Mr. Yamazaki remarked. He had noted the proposal that the Board of Governors adopt a resolution requesting the Executive Board to continue its work on the review of quotas; continued work should be expedited with a clear date of completion in mind.

The basic condition for a new SDR allocation had not been met, Mr. Yamazaki said.

Mr. Finaish made the following statement:

I broadly agree with the proposed work program, which is comprehensive and covers a number of important issues. I look forward to the refinement and extension of the analysis in the world economic outlook exercise, particularly the development of criteria that would be helpful in judging the sustainability and desirability of the evolution of key economic variables. The proposal to strengthen the analysis of economic interactions among groups of industrial and developing countries is welcome, but the focus ought to be on the impact of industrial country policies on the developing countries. The analysis of the impact of industrial country macroeconomic policy and performance on developing countries is essential for understanding the divergent economic performance among developing countries.

I expect that indicators will reflect changes in developing countries' ability to acquire real resources from the industrial world to support the development effort. These indicators should include not only the commodity trade side--such as industrial country protectionism, import volumes, and the terms of trade--but also the financial linkages, such as real interest rates and capital flows to developing countries.

I welcome the Chairman's suggestion that the Board examine the revitalization of the extended Fund facility, and look forward to the proposals to this effect that will be offered in the staff papers on the review of conditionality. Under current and prospective global conditions, the number of countries that meet the conditions of this facility--namely, countries making structural adjustments that are to be supported by resources repayable on relatively long maturities--has increased, and will likely continue to do so. Some developing countries are suffering serious payments imbalances relating to structural maladjustments in production and trade, whereas some others face slow growth and weak balance of payments positions which prevent the pursuit of an active development policy. The reasons for the structural problems in developing countries are complex and are to a considerable extent rooted in global economic developments as well as the domestic economic policies followed in these countries. But the central point is that noted in the Chairman's statement: structural adjustment requires more time and, in certain cases, could be tackled more effectively within the framework of the extended Fund facility than under successive stand-by arrangements.

I welcome the paper on the impact of industrial policies of the developed countries on the developing countries. I look forward to the discussion of the papers that pertain to the question SDR allocations, and I hope that the planned additional work in this important area will help to mobilize the needed support for a new allocation. I also look forward to the discussions of the papers prepared in connection with the Ninth General Review of Quotas, and hope that the Board will pursue its tasks in this area in a manner that will ensure that an appropriate decision on the size of the Fund is made in due course.

I fully appreciate the large number of issues to be covered by the Board before the next Interim Committee meeting. I am, therefore, somewhat hesitant to suggest yet more work for the Board and the staff, as both are probably overworked as it is. But it is important to recognize the relevance of the Islamic financial system to the work of the Fund, and to enhance the institution's understanding of that system. This would have to be an ongoing process, given the number of issues involved, and the evolution of the system in some member countries. Thus, while I do not feel that a Board discussion on this matter is

absolutely necessary during the period covered by this work program, more thought should be given to improving the Fund's understanding of the issues involved.

Islamic banking is quite relevant to the Fund's work. Both in designing adjustment programs and in providing Fund advice during Article IV consultations, a central question is how to mobilize domestic resources in order to improve the saving-investment balance and thus the external position of the country concerned. Typically, the question of interest rates is raised, and the staff urges the country to raise interest rates to competitive levels--or at least to levels which are positive in real terms. This is fully understandable insofar as savings behavior is influenced by the rate of return. The problem is that the ordinary interest rate is fixed, or predetermined, which in many Muslim countries appears contrary to religious beliefs. In the Islamic financial system, any instrument based on profit sharing is permissible. Although public resistance to policy measures under Fund-supported programs is nothing new, when that resistance is motivated by religious beliefs, the situation becomes more difficult. Also, the implications for the image of the Fund become more serious.

The Fund is not completely oblivious to this problem, and there have been recent signs of some flexibility on this particular issue. But one hopes that the Fund's appreciation of the problem will be strengthened in the future. This is one reason why I believe that more thought and more work by the Fund on this issue will be useful. Of course, responsibility must be assumed both by the Fund and the country concerned. Both parties presumably seek the same objectives--such as reducing external imbalances and mobilizing domestic savings. The challenge is to find alternative means of achieving these objectives without necessarily relying on fixed-interest instruments. In some countries the question is somewhat different, since an Islamic banking system is already in place. As the theoretical work--both inside and outside the Fund--has shown, such a system is likely to result in increased flexibility in the rates of return.

A number of relevant issues were addressed during the Board Seminar on Islamic banking in July 1986. During that discussion, some additional questions were raised and the Chairman, in his concluding remarks, referred to a number of areas in which more work would be beneficial. It would be useful for management to direct the relevant departments--such as the Research, Fiscal Affairs, and Middle Eastern Departments--to explore some of those issues, particularly as they relate to Fund programs and surveillance under Article IV. In the seminar on Islamic banking, I suggested areas where further work was needed, including, inter alia, fiscal policy issues of an Islamic system and the design of instruments for government borrowing that are not

interest based; the design of financial markets, bank regulations, and instruments in an Islamic system, in the light of their implications for monetary policy and financial programming; and the design of Fund programs in countries where interest rates are taken as a constraint and not as a primary policy variable.

Mr. El Kogali made the following statement:

In general, I support the content and priorities of the proposed work program. It is comprehensive and relevant to the tasks ahead.

I look forward to the Board's discussion of issues relating to the enhancement of the structural adjustment facility, which, obviously, are matters of great interest to countries in my constituency. I hope that the strong support that has so far characterized discussions on the enhancement will be reflected in an early conclusion to the discussions, and on agreement on financial arrangements for the implementation of the enhancement. I hope that both the staff papers and the Board discussions of conditionality issues and access policy under the structural adjustment facility would adequately reflect the spirit behind the origin and purposes of the facility, which was established specifically to enable the Fund to respond more effectively to the special problems of the low-income countries. It is important that some means be found to enable members in arrears to benefit in a timely manner from the resources of an enhanced structural adjustment facility if they are prepared to implement strong and comprehensive adjustment programs.

On the planned review of adjustment programs, the growth-orientation which Fund programs now tend to stress requires a process of adjustment based on a strong foundation of structural change and increased imports of investment goods, spare parts, and other essential supplies to facilitate the diversification of export capabilities. The set of "growth exercises" proposed in the work program would, I expect, seek to establish--particularly for the low-income developing countries--minimum levels of external financing, investment expenditure, and import volumes consistent with growth targets, and the level of debt service burden that a country could bear, as an integral part of program design.

The comprehensive review of conditionality should include, inter alia, the stage of development of each country, its growth performance, and the particular structural constraints that it faces. In other words, although the principle of uniformity of treatment remains, the application of Fund conditionality should reflect an adequate and sufficient flexibility for Fund policies on the use of its resources within the context of a case-by-case

approach. The review should include an assessment of the relationship between the level of conditionality and the achievement of program objectives, particularly in the low-income countries. The outcome of an empirical study along this line could, perhaps, indicate clearly the contribution of conditionality to program success. Until such an empirical link is established, arguments for or against any particular level of Fund conditionality may be difficult to substantiate.

I welcome further work to strengthen the use of indicators as a tool for surveillance, and I look forward to the consideration of the staff paper on the proposal by the Governor for the United States regarding possible utilization of the relationship among currencies and a basket of commodities, including gold, as an additional indicator of policy developments and of the cooperation process among the major countries. Work on indicators and their application should, at this stage, be restricted to the major industrial countries over which the Fund has relatively limited surveillance leverage. The Interim Committee has, in its recent communiqué, instructed us to design indicators for use in assessing, inter alia, "the impact of industrial countries' policies on developing economies...." I hope that it will be possible to consider this aspect of the functioning of the international economic order before the spring meeting of the Interim Committee.

My authorities attach great importance to the ongoing Ninth General Review of Quotas. I was gravely concerned by the outcome of the preliminary technical calculations--as presented in the staff papers discussed by the Board in July--and hope that the papers under preparation on the revised quota calculations and further consideration of variables in the quota formulas will fully address the issues raised--particularly those regarding the need to improve the mechanics of quota calculations in order to remove from the existing system inherent weaknesses that tend to reduce the relative shares of developing member countries. I look forward to having plausible quota figures as a result of the review exercise.

It would appear that country items might take a disproportionate amount of Board time. Between 1980 and 1985, the time spent by the Board annually on such items doubled from 160 hours to approximately 320 hours. It would be interesting to know the figure for 1986 and the projection for 1987. I hope that as more countries come under the bicyclic procedure, there will be a significant reduction in the time spent on these items.

Much work is planned on capital markets and debt management. I would appreciate having a specific study on the evolution of a debt strategy for the low-income countries.

The work program is still silent about Islamic banking, despite the requests which have been made in the past by some Executive Directors that the subject should be under active study, with Executive Directors being informed of major developments. This is an issue of interest to a number of my authorities who are now implementing the Islamic banking system, and they would very much benefit from further staff study of the subject.

Mr. Mawakani made the following statement:

The work program under consideration is ambitious, but it can hardly be less than that in view of the urgency of the many matters that the Board of Governors has mandated us to examine. I fully agree that we should concentrate our efforts on those areas where genuine progress can be made--such as surveillance, enhancement of the structural adjustment facility, the review of conditionality, and trade issues.

Undoubtedly, progress has been made in the field of multi-lateral surveillance with the use of economic indicators. My authorities continue to attach considerable importance to discussions on surveillance and hope that the steps taken to use indicators to enhance surveillance will reduce the asymmetry inherent in the existing surveillance procedures. I am, therefore, pleased to note the continuing interest in the use of indicators to determine the sustainability and desirability of economic policies of major countries. While a mechanistic reaction to those indicators is not desirable, the whole exercise could be meaningful if deviations from a sustainable pattern could trigger further consultations and the adoption of corrective measures if warranted. I also look forward to the discussions on the broadening of the coverage of indicators to include an index of a basket of commodities. With regard to the world economic outlook, I am pleased that the medium-term scenarios have become an essential feature of this exercise. Scenarios which establish the conditions for a higher per capita output growth in developing countries should also be included. Of major importance should be the establishment of the necessary policy settings, as well as the foreign capital requirements, for such growth. However, the inclusion of some major developing countries in the world economic outlook will be of limited interest, as developing countries adapt their policies to the world economic environment as shaped by the major developed ones.

On the use of Fund resources, I fully subscribe to the revitalization of the extended Fund facility. My own authorities' experience with the extended Fund facility has not been an encouraging one, but they have always believed that a modified facility implemented flexibly, would go a long way in supporting their adjustment efforts. At a time when the Fund is putting more

emphasis on structural adjustment programs, it has become necessary to place the Fund's support of member countries undertaking such programs in a medium-term context. I therefore look forward to the discussions on ways to make the extended Fund facility a major means through which the Fund could provide the needed financial assistance.

Fund conditionality should be examined in order to make it flexible and appropriate for programs to achieve growth and adjustment. The introduction of a contingency mechanism in the design of Fund programs will be a step in the right direction. I welcome the empirical study on the impact of Fund-supported adjustment programs on the poor, and hope that such a study will produce recommendations to address this issue. On access limits, the recommendation to circulate the decision on a lapse of time basis is welcome, and I encourage management to adopt a similar procedure for other issues whenever necessary.

There is no mention of a formal Board discussion of the G-10 and G-24 reports in the work program. I understand, however, that the papers on, inter alia, conditionality, use of Fund resources, program design, and monitoring are meant to cover the issues raised in these two reports. We should, however, find a way to hold a formal discussion, at least to discuss the format of the Chairman's report to the Interim Committee.

Another crucial issue--protectionism--relates to the sluggish growth of the world economy and lower prices of primary commodities--protectionism. My authorities are very concerned about this and wish to see trade issues kept under careful review.

A durable solution to the debt problem remains the cornerstone of a sound international economic system. I, therefore, support further discussions on the debt strategy and on the continued and increasing role of the Fund in that context. The various papers on capital markets and issues in debt management are welcome. I particularly look forward to the paper reviewing Fund policy on approvals in principle. Such a review has become necessary in view of the difficulties encountered with commercial banks in concerted financing for countries undertaking Fund-supported programs.

Regarding the functioning of the international monetary system, I support the technical work on policy coordination and hope that the staff paper will also present recommendations on ways to improve the system.

I encourage management to pursue bilateral discussions with a view to reaching a consensus on an SDR allocation, and the staff to pursue its studies on the role of SDRs in the international monetary system.

My authorities attach considerable importance to the Ninth General Review of Quotas, and hope that their expressed concerns about the various issues involved will be taken into account in the calculation of their final quotas. Management's efforts to enhance the resources of the structural adjustment facility are commendable, and I look forward to examining the staff papers on that matter.

The Chairman said that the restraint shown by Executive Directors in requesting additional studies was welcome. The emphasis that speakers had placed on the importance of the world economic outlook, the use of indicators in surveillance, and related issues in surveillance seemed to be appropriate, and the staff would carefully examine the various specific suggestions in those areas that had been made during the discussion.

In addition, Executive Directors seemed to wish the work on the extended Fund facility, the compensatory financing facility, and the structural adjustment facility to continue as planned, the Chairman remarked. Moreover, efforts would be made to schedule a comprehensive discussion of the G-24 proposals on conditionality. He had noted Mr. Sengupta's request for a wide-ranging report to the Interim Committee on all the G-24 proposals by April 1988. While some of the proposals would not be discussed in the Board in time for such a report to be provided, a general progress report would be made to the Interim Committee on the status of the work under way in the Fund. Work on the Ninth General Quota increase should proceed as planned; the Fund could not afford to appear reluctant to act on that matter.

Executive Directors had broadly endorsed the proposed studies of the international monetary system, the Chairman continued. Speakers had noted that the time horizon for those studies was longer than that required for most other Fund studies. However, it was encouraging that Executive Directors considered it timely to launch studies on the international monetary system in line with the ongoing work on, inter alia, surveillance, indicators, and the world economic outlook.

Like some Executive Directors, he considered it inappropriate to delay consideration of the proposed paper on trade until the period leading up to the 1988 Annual Meetings, the Chairman remarked. In seeking to support the work of the GATT, the Fund should try hard to shorten delays in completing its own trade-related work and to continue to develop its cooperation with the GATT.

Islamic banking must continue to be the subject of serious examination; a number of member countries wished to develop their financing systems on the basis of Islamic principles, the Chairman commented. A research program had been under way for several years, and would continue; the high quality of the seven studies involved that had been published--or were nearing publication--should be maintained in the future. The magnitude of resources devoted to the study of Islamic banking would be

examined with a view to assessing their possible expansion--including the provision of additional resources to the Central Banking Department for work in that area. Through the day-to-day work with member countries in the context of Article IV consultations and discussions on the use of Fund resources, area department staff should make a greater effort than hitherto to examine and report on developments in Islamic banking in individual countries. The evolution of ideas within the Islamic community on the implementation of Islamic banking principles could usefully be examined in the light of experience in several countries.

Recent events had confirmed the appropriateness of regularly scheduled reviews of developments in exchange markets, and such reviews would continue, the Chairman concluded. Finally, Executive Directors had emphasized the utility of the seminar format, which permitted a freer exchange of views on a variety of subjects--including exchange rates--and some seminars would be held in coming months.

Mr. Erb said that a paper was being prepared on the Fund's financial year, which would be discussed at the time of the midyear budget review in December. A review of the pension system was currently being conducted by both World Bank and Fund management; it probably would not be brought to the Board within the current work program period. Executive Directors' involvement in the review would probably occur in the context of the Pension Committee's work. The review of technical assistance was under way and would be discussed either before or during the budget discussion in April 1988.

The Secretary said that several policy papers would have to be discussed in February, and management would continue to try to avoid an excessive load of policy discussions in March. There was an inevitable seasonality in the scheduling of country matters for Board consideration, with a relatively heavier load in late 1987 and in the early part of 1988; the scope for evening out the load of country work was limited.

The Executive Directors concluded their discussion on the work program.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/87/151 (10/30/87) and EBM/87/152 (11/2/87).

3. SUDAN - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

Paragraph 4 of Decision No. 8678-(87/121), adopted August 7, 1987, which provides for a review of the decision to be held "within a period of three months" from the date of the decision, shall be amended to read:

The Fund will review the matter of Sudan's overdue financial obligations to the Fund again not later than November 16, 1987. (EBS/87/164, Sup. 3, 10/28/87)

Decision No. 8721-(87/152), adopted
October 30, 1987

4. BURUNDI - TECHNICAL ASSISTANCE

In response to a request from the Burundi authorities for technical assistance in the area of tax and customs policy and administration, the Executive Board approves the proposal set forth in EBD/87/277 (10/27/87).

Adopted October 30, 1987

5. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 87/56 through 87/61 are approved. (EBD/87/273, 10/26/87)

Adopted October 30, 1987

6. EXECUTIVE BOARD TRAVEL

Travel by an Assistant to Executive Director as set forth in EBAP/87/234 (10/29/87) is approved.

APPROVED: June 20, 1988

LEO VAN HOUTVEN
Secretary

