

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/179

3:00 p.m., November 10, 1986

J. de Larosière, Chairman

Executive DirectorsA. Abdallah
Dai Q.

A. Donoso

T. P. Lankester

Y. A. Nimatallah
G. Ortiz
H. Ploix
G. A. PosthumusAlternate Executive Directors

E. T. El Kogali

D. C. Templeman, Temporary

L. Hubloue, Temporary

C. A. Salinas, Temporary

T. Alhaimus

M. Sugita

B. Goos

J. Reddy

H. A. Arias

I. Puro, Temporary

D. McCormack

J. K. Orleans-Lindsay, Temporary

I. Al-Assaf

S. de Forges

C.-Y. Lim

A. V. Romuáldez, Temporary

O. Kabbaj

A. S. Jayawardena

N. Kyriazidis

L. Van Houtven, Secretary

K. S. Friedman, Assistant

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3. Iceland - Technical Assistance Page 36

Also Present

Administration Department: H. J. O. Struckmeyer, Deputy Director; N. S. Jackson. African Department: A. D. Ouattara, Director. Asian Department: W. G. L. Evers. European Department: P. B. de Fontenay, Deputy Director. Exchange and Trade Relations Department: C. D. Finch, Counsellor and Director; M. Guitián, Deputy Director; G. Bélanger, J. T. Boorman, C. M. Watson. External Relations Department: C. S. Gardner, Deputy Director; M. Goldstein. Legal Department: W. E. Holder, R. H. Munzberg. Research Department: R. R. Rhomberg, Deputy Director; W. M. Corden, N. M. Kaibni. Secretary's Department: A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; W. L. Coats, Jr. Western Hemisphere Department: S. T. Beza, Associate Director. Bureau of Language Services: J. E. Merry. Bureau of Statistics: J. B. McLenaghan, Deputy Director. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: A. A. Agah, P. E. Archibong, E. Ayales, L. P. Ebrill, J. Hospedales, K. Murakami, A. Ouanes, P. Péterfalvy, G. Pineau, I. Sliper, Song G., A. Vasudevan. Assistants to Executive Directors: O. S.-M. Bethel, J. de la Herrán, V. Govindarajan, G. K. Hodges, A. Iljas, S. King, K.-H. Kleine, M. Lundsager, T. Morita, R. Msadek, C. Noriega, S. Rebecchini, H. van der Burg, E. L. Walker, D. A. Woodward.

1. WORK PROGRAM

The Executive Directors continued from the previous meeting (EBM/86/178, 11/10/86) their consideration of the Managing Director's statement on the work program for the period up to the spring 1987 meetings of the Interim and Development Committees:

Mr. Nimatallah made the following statement:

I generally agree with the proposed work program. The planned review of conditionality is timely. Future conditionality should take more into consideration the relative stage of development of each country, its growth performance--of productive capacity, output, or both--and the particular structural constraints it faces. While retaining uniform treatment, it probably is time for the Fund to move gradually away from the mechanical application of conditionality. To this end, it would be important for the staff to develop additional tools of analysis for identifying the special features of each case. In addition, I am pleased that the staff is preparing an empirical examination of adjustment in high-inflation countries, and I assume that in the process they will examine the reasons why certain countries fall into the high-inflation trap.

I look forward to the review of the structural adjustment facility, and I hope that the staff will find ways in which to reduce the steps involved in negotiating a program under the structural adjustment facility. I have heard complaints that the negotiating process is somewhat tedious and difficult for certain countries, as they move back and forth between the Fund and their capitals, and I hope that we can find an easier way in which to conduct such negotiations. I also hope that structural adjustment arrangements can add more visibly to the flow of resources to the countries that undertake structural adjustment programs.

While I am not convinced that a full review of the compensatory financing facility is warranted now, I can go along with such a review, provided that the staff keeps in mind at least four basic underlying principles. I would prefer to have the review take place on one occasion rather than in the two stages that Mr. Dallara suggested. The principles that, among others, the staff should keep in mind are, first, to maintain the principle of basing compensation on deviations from a trend of export revenues. Within such a trend, short-term adverse deviations should clearly give rise to compensation under the compensatory financing facility. The second principle is that of maintaining the requirements of cooperation with the Fund. The third principle is to treat all commodities and all members' requests uniformly and on a case-by-case basis. The fourth principle is to strengthen procedures to avoid abuse of the spirit of the compensatory financing facility.

In the areas of indicators and surveillance, I encourage further work to strengthen the use of indicators as a tool for surveillance and to help to improve the design of the economic policies of industrial countries as well as to increase the coordination of such policies.

I look forward to the inclusion in the next world economic outlook paper of an analysis of the interrelationship between debt and growth in developing countries. I welcome the planned studies that will be circulated in advance of the world economic outlook exercise on capital flight, growth of productive potential, and policy coordination, but I would give priority to the perspective collaborative study between the World Bank and the Fund analyzing the main factors responsible for the weakness in primary commodity prices and analyzing the impact of industrial countries' agricultural policies on developing countries' economic prospects. I support Mr. Dallara's request that the latter paper could be extended to include the agricultural policies of developing countries.

Operational matters have to do basically with the state of the liquidity of the Fund and the use of its resources. At this point, the Fund's liquidity position seems to be adequate, especially in the light of the arrangements with the SAMA and the proposed arrangement with Japan. However, the prospects for the use of the Fund's resources are not clear to me. I am still worried about the overdue payments and the way in which they are being handled by the Fund. The proposed discussion on December 8, 1986 of the six-monthly report on overdue financial obligations could include the two technical papers on postponement of repurchase obligations, payment of charges in domestic currency, and the suspension of membership in the Fund, as they are clearly relevant to the issue of overdue obligations.

As to the potential use of the Fund's resources, in coming months developing countries will probably continue to experience difficulties as they attempt to enhance export revenues. In normal circumstances, growth in industrial countries helps the economic prospects of the developing countries. However, owing to problems in export markets, either because of the collapse of commodity prices or because of a failure to resist protection in the major countries, or both, efforts to diversify exports in developing countries do not seem to succeed in the short run, as they take time to bear fruit and require the support of trading partners. Therefore, I suspect that there will be more requests for Fund financing than are currently anticipated. Hence, the work load involving the use of the Fund's resources will probably be heavier than is expected.

The timing of the consideration of the Fund's budget could be improved to avoid holding the discussion immediately after the spring meeting of the Interim Committee. It is very difficult to

prepare for a budget discussion that occurs after the spring meeting of the Interim Committee, despite the discussions on the Fund's income and related matters earlier in the budget year. I hope that, to the extent possible, the administrative budget for 1988 will be kept in mind with the present budget.

I look forward to the staff's study on the interrelationships between protectionism, balance of payments adjustment, and economic growth. This study will have important implications for the design of future Fund-supported programs.

Mr. Romuáldez made the following statement:

I broadly endorse the proposed work program. However, on certain specific matters to which I shall refer, I have some slightly different views with respect to timing.

The proposed work on the role of the Fund threatens to be broad ranging and time consuming during what is likely to be a busy period for the Executive Board. Therefore, I support the proposal that the staff should prepare a brief "state of play" paper on the issues covered in the G-10 and G-24 reports and the extent to which they have already been discussed. This would give the Executive Board an opportunity to reach some initial agreement on the focus of the paper and to give the staff more specific guidance.

I am somewhat apprehensive about the scheduled discussions on March 6, 1987. While the agenda lists only two papers for discussion on that day, one on conditionality and the experience with adjustment programs and the other on experience with adjustment in high-inflation countries, I note from the Chairman's opening statement that the first paper will also cover responses to issues raised by Executive Directors in their discussions on the theoretical aspects of Fund program design as well as program design and performance criteria. Given these other issues, the agenda strikes me as being overburdened; the review of guidelines on conditionality will probably take a great deal of time, and adding issues relating to theoretical aspects of Fund program design and to performance criteria and design, not to mention adjustment in higher-inflation countries, could make it a long day. Given the nature of these latter topics, a seminar discussion on all three would be appropriate on a date preferably a few days before March 6.

I am pleased that the symposium on growth-oriented adjustment has been scheduled for end-February. It too could contribute to crystalizing ideas on conditionality, program design, and performance criteria. I welcome the decision to analyze the effects of the agricultural policies of industrial countries on developing

countries' economic prospects and on commodity prices. I also welcome the review of the compensatory financing facility and a paper examining the implementation and effectiveness of the structural adjustment facility. As to the compensatory financing facility, I recall that the paper on access limits for the special facilities, which was issued prior to the 1986 Annual Meeting, noted that 1986 will be a major shortfall year in terms of amounts and the number of countries involved. An earlier review of the compensatory financing facility might therefore be appropriate, particularly if the number of requests to draw on the facility is expected to increase between now and March 1987.

As to the issue of Fund surveillance, I appreciate the Secretary's opening statement, which helps to give perspective to the question of surveillance. I was pleased to hear Mr. Kafka's opening statement, and I fully support and look forward to the informal meeting on this issue to which he referred. I recall that at least one Executive Director has suggested that consideration should be given to certain countries holding mini-Article IV consultations with the Fund every second year in order to reduce the Executive Board's work load. It has been suggested that a brief staff report--without an accompanying staff report on recent economic developments--could be circulated to Executive Directors for their information on a lapse of time basis or could be scheduled for brief comments in the Executive Board. I believe that this corresponds to Mrs. Ploix's first suggestion. Perhaps this proposal, in addition to Mrs. Ploix's other suggestions, could be further considered in the context of the annual review on surveillance. Some 80 Article IV consultations are scheduled for the Executive Board's consideration by mid-April, and any reduction in that list, without of course jeopardizing the Fund's surveillance efforts, would be welcome.

The two technical papers on SDR matters that were carried over from the previous work program are scheduled to be distributed before the end of 1986. I think that these papers should be discussed before the other four SDR policy papers that are listed in the work program.

It is entirely appropriate that the new Managing Director should have an input into the content and timing of the papers on the Ninth General Review of Quotas. This is an important issue and one on which most members would like work to progress as quickly as possible. I hope that this consideration will spur our European colleagues to reach an early decision on the selection of a successor to the present Managing Director.

Mr. Puro made the following statement:

The proposed work program is excellent. It is almost too perfect, in the sense that it is comprehensive and provides for such a full--if not overfull--capacity utilization that there is no room for additions. In these circumstances, it is particularly important to set priorities to make it possible to study the crucial issues in sufficient depth. I broadly agree with the composition of the work program and with the relative prominence given to the various issues. But given the ambitious character of the program in relation to the resources at our disposal, including Executive Board meeting time, it maybe useful to recall the ideas that were put forward by Mr. Lundstrom some time ago on how to reduce the work load connected with Article IV consultations.

We support the idea of asking the staff to prepare a paper that surveys the pertinent issues in the G-10 and G-24 reports on the role of the Fund and indicates the extent to which they have been covered thus far in our work program.

Another important issue concerning the role of the Fund is the formulation of Fund-supported adjustment programs. The staff has already produced extensive and interesting material that has raised additional issues in this area. In our recent seminar discussion we agreed that the interplay between growth and adjustment--in theory and in practice, with due regard being paid to the time factor--is particularly important. The planned Fund/Bank symposium on growth issues is commendable. I share Mr. Kafka's concern about the narrow room for participation by Executive Directors in the symposium. I look forward to an exhaustive discussion of the theoretical and practical implications of the two special mechanisms included in the agreement with Mexico.

Fund surveillance seems to be the main area where prospects for progress appear to be best. The theoretical and practical work related to the application of economic indicators will continue on the basis of the guidelines that were defined by the Interim Committee. Above all, I look forward to the continued development of the application of indicators in the next world economic outlook exercise. In this context, I am particularly interested in the use of indicators to improve analysis in general and as a trigger for international deliberations in particular.

I look forward to the review of the experience with enhanced surveillance procedures in connection with the annual review of surveillance. The staff could also report on how Executive Board decisions on certain concrete measures to strengthen surveillance have been followed up.

I welcome the staff studies on a range of interesting matters that are to accompany the next world economic outlook paper. I would stress that these accompanying studies should be distributed well ahead of the main document in order to avoid a repetition of the experience of last spring, when the insufficient time available restricted the usefulness of the abundant material. I also welcome the staff paper reviewing the status of and the outstanding issues concerning the debt strategy. As I understand it, this paper will include an appraisal of the Baker initiative in the light of experience and of the current situation.

In the area of SDR matters, the planned study of the concept of the long-term global need is of major significance and should be given priority over the other SDR studies if the work load makes this necessary. This chair may present at a later stage some ideas on the outline of this paper. I hope that the paper on the global need will lead to a narrowing of views on the allocation question. As for the SDR studies to be issued this fall, I look forward with great interest to the conclusions that could be reached about increasing the use of SDRs.

On a number of occasions my authorities have expressed the hope that the Ninth General Review of Quotas will be started early. I sympathize with the Chairman that the relevant staff papers should have the input of the new Managing Director, but that should not prevent a prompt initiation of the preparatory work, considering the mass of technical calculations and other work that has to be undertaken in any event. This should make it possible to avoid delaying the entire review process.

There would be nothing lost in postponing the consideration of the paper on suspension of Fund membership in view of the heavy work program. Finally, I welcome the planned staff study on some of the consequences of protectionism.

Mr. Dai made the following statement:

The work program outlined by the Chairman is comprehensive and is in step with the present international economic situation and with the challenges facing the Fund. I generally agree with the proposed program. However, I share the view of other Executive Directors that the work load based on the proposed program seems to be excessively heavy, as it tries to accomplish too many tasks in a short time. For example, there are approximately 150 different major and minor items that are to be discussed during the period in question, which means on average roughly eight items a week. I doubt whether all these items can be considered thoroughly and fruitfully on such a tight schedule.

As to the 115 items that are listed under the area departments' work program and the 10 items that are operational and administrative matters, many of which are covered in routine meetings on the basis of the Fund's established regulations and practices, it would be desirable to streamline those discussions or to adopt reform measures to improve the practices in Executive Board meetings with a view to saving time and increasing efficiency. The 15 policy items mentioned usually are time consuming; these should be given more careful scrutiny by the Executive Board, and priorities should be set according to the merits of each item. In this connection, three considerations should be kept in mind.

First, items that were considered during the previous Interim Committee meeting and that were put aside for Executive Board discussion, or items that are to be taken up during the next Interim Committee meeting, should be given first priority for full deliberation and should be concluded as early as possible by the Executive Board. Such items include enlarged access limits, a further allocation of SDRs, and the Ninth General Review of Quotas. Second, items concerning the stability of the international financial system should not be included with a host of other items. Ample time needs to be given to allow full discussion of such matters as the application of indicators, the debt situation, and the world economic outlook exercise.

Third, items that need to be studied over a longer period, such as the function of SDRs and the interrelationship between debt and growth, should be discussed with a limited but definite purpose.

The Fund is at a new crossroads in its history that has two main features. The first is that the exchange rate system of the major developed countries is at a turning point, moving from a free floating to a managed system. The second is that the protracted debt problem in many developing countries seems to be altering the nature of Fund-supported adjustment programs as well as the use of Fund resources. Both features will have a profound impact on the role and functioning of the Fund and will need to be kept in mind when we schedule our future work program.

Mr. Lankester made the following statement:

In general I support the proposed agenda. I will therefore comment only on particular items and on the relative priorities as I see them.

I look forward to the discussion on performance criteria, and I am particularly pleased that we will have a separate paper on the innovations contained in the Mexican program.

I attach great importance to the planned review of the compensatory financing facility. We will inevitably need more than one discussion to do justice to the subject, and I therefore endorse the suggestion that the best way to do so is to start with a broad issues paper. This should help to bring out the areas that need further elaboration and discussion. The points that I have made on recent compensatory financing requests should give the staff an indication of my authorities' principal concerns and of the sort of issues that I would like to see covered in the basic issues paper. I have some reservations about the proposed timetable for this discussion, and like Mr. Dallara I wonder whether it might not be possible to consider the basic issues paper before March 1987. Once the Executive Board has had the opportunity to discuss the issues paper, it should be easier to see how the Board should proceed thereafter--for example, whether there should be a further discussion on the compensatory financing facility before the spring meetings. I would like to see the review completed as soon as possible. In any event, in my view it must be completed by the 1987 Annual Meeting.

I am interested in Mrs. Ploix's suggestions about ways in which the surveillance procedures could be improved. This is not the time to discuss such suggestions in detail, but I wonder how much time the Executive Board would save by placing some of the smaller members on longer consultation cycles, as it is my impression that the Article IV discussions on many of the smaller members typically last for only an hour or so and do not generally take up much of the Executive Directors' time.

I am also interested in Mr. Dallara's comments on ways in which the indicators exercise could be extended. There could be considerable merit in developing the exercise to help the major economies to set their policies more fully in a consistent medium-term context, thereby avoiding the sort of short-term fine-tuning approach that can all too easily come to dominate policy formulation. I am particularly pleased that we are to have a separate paper on capital flight. We need a better understanding of this subject and of how policies should be designed to lead to a reversal of capital flight. I am worried that this subject might be lost in the welter of world economic outlook material that is planned, and I would therefore suggest that we have a separate discussion--possibly in a seminar--of this topic.

Several Executive Directors have referred to the proposed heavy work schedule of items concerning the SDR. This is of course an area where progress will only be possible if a widespread consensus exists. I agree with Mr. Ismael that there might be a case for combining some of the separate discussions that are currently scheduled. This could help to reduce the pressure on the Executive Board without preventing or in any way hindering appropriate policy changes should the necessary consensus exist.

I am pleased that the staff has fully responded to the Development Committee's request to consider the importance of agricultural policies in the industrial countries and their implications for the prospects of developing countries. But I wonder whether this paper might not also usefully be extended to cover, at least to some extent, the agricultural policies of developing countries.

I look forward to the review of the structural adjustment facility. If, as it appears, a significant number of eligible countries are choosing not to seek drawings under the facility, this might have important implications for the level of access. I also agree that aspects of Fund/Bank collaboration need to be reviewed. Finally, I would repeat a suggestion that our chair has made on previous occasions, namely, that the staff should prepare a paper on the design of foreign exchange markets in the light of the experience in several African countries over the past year or two.

Mr. Abdallah made the following statement:

The proposed comprehensive work program appears to be ambitious and leaves no doubt that a busy period lies ahead for the staff as well as the Executive Board. I broadly agree with the content of the program.

I look forward to the discussion on program design and performance criteria, and I welcome the supplementary paper that is to examine in a broader context the two special mechanisms that are incorporated in the stand-by arrangement with Mexico. I hope that the Executive Board's discussion of these papers will result in improvements in the design of Fund-supported programs, the phasing of purchases, and the management of adjustment programs.

I hope that the staff paper on the review of conditionality in response to issues raised by Executive Directors in the discussion on program design will explore the relationship between the level of conditionality and the achievement of program objectives. In particular, there is an urgent need for empirical study of the link between the level of conditionality and the success of adjustment programs in low-income countries. This could perhaps be done in the context of the proposed paper that will examine the effectiveness of Fund-supported adjustment programs in a historical context. My only concern in this respect is that the evaluation will not be part of the Executive Board's proposed work program.

I greatly welcome the proposed Fund/Bank symposium on growth-oriented adjustment programs, which should focus attention on a matter that is of urgent international interest. The World Bank and the Fund have a lot to learn in this particular field from members that have undertaken adjustment programs, from informed

critics who have been dispassionately observing what has been happening, and from each other. All the available knowledge should be pooled and then applied in a pragmatic manner.

The paper examining the implementation of the structural adjustment facility is also of considerable interest to the countries in my constituency. There is some concern that the way in which the facility has been implemented thus far and the conditionality attached to it have tended to follow the traditional approaches of the Fund and the World Bank in an even more rigid manner than had tended to prevail in the past, thereby discouraging many eligible countries from using the facility. The paper should examine such concerns in addition to reviewing general issues such as conditionality, intensifying Fund/Bank collaboration, and whether the facility has catalyzed the expected additional resources.

The main objective of the use of indicators is to improve policy coordination among major industrial countries and to increase the convergence of economic policies with a view to promoting compatibility of objectives, strengthening the international adjustment process, and encouraging greater exchange rate stability. Given the consensus that is emerging on the use of objective indicators, additional staff studies should now aim at developing specific approaches on how in practice these indicators might facilitate the adoption of corrective measures by the national authorities of both deficit and surplus countries. It is in this regard that I fully endorse the suggestion that the next world economic outlook should focus attention on potential incompatibilities in national economic policies of major industrial countries.

Previous staff studies on external debt have not paid sufficient attention to the plight of low-income countries. I have repeatedly stated that although the debt problem facing these countries is not large enough to threaten the functioning of the international monetary system, it is very serious relative to the incomes and debt servicing capacity of the low-income countries. Therefore, the next paper on debt should pay adequate attention to this problem and should indicate possible ways in which it can be dealt with.

I welcome the proposed further studies to follow up our previous discussion of the postallocation adjustment in the distribution of SDRs and related issues. However, unless the needed consensus on a new allocation is reached, such studies will have no practical effect. Therefore, equal attention needs to be devoted to ways and means of building among the industrial nations the needed consensus to support a new SDR allocation.

In July 1986 the Executive Board held a seminar on Islamic Banking, and a number of Executive Directors suggested additional lines for further study. I am confident that the Research Department has not forgotten these suggestions, although the proposed work program is silent on this subject.

The next six-monthly review of overdue financial obligations should provide an opportunity to assess the present approach and to consider whether there is a more effective way in which to deal with this problem. The only sustainable way in which a country can become current in the Fund and remain current is to implement adjustment policies with growth, consistent with the Baker initiative. The Fund and the World Bank must make every effort to ensure that this happens.

The work load related to the area departments' work program in the period up to the end of May 1987 is very heavy. I agree with other Executive Directors that every effort must be made to reduce this work load. Country matters are likely to take up too much of the Executive Board's time.

Mrs. Ploix made the following statement:

I broadly agree with the main topics that have been included in the proposed work schedule. Therefore, I will confine my comments to the approach that I would like to see used in dealing with certain important policy items. I would emphasize the need to conduct our reviews of important policy matters in a more operational manner.

I agree that the thorough review of the compensatory financing facility must address both the basic principles underlying the facility and the technical aspects of compensatory financing. However, it seems necessary to take a wider view by encompassing the cereal component of compensatory financing. Hence, it does not seem advisable to wait until May 1987 to consider that component; it should be included in the proposed March 1987 discussion on the compensatory financing facility. Access under the facility should be examined in the broader perspective of the limits on access for the general purpose facilities, credit tranches, and the extended Fund facility. The discussion could take place in a seminar, in order to encourage ideas and to clarify positions. A seminar discussion might help to achieve the objectives that Mr. Dallara mentioned.

A second element that deserves mentioning is the joint report by the Fund and the World Bank on the market prospects for raw materials and the impact of industrial countries' agricultural policies on developing countries that was requested by the Development Committee. Given the current work load, and in the light of

the Chairman's concluding remarks at the recent seminar session on the theoretical aspects of Fund programs--specifically the statement that although the Fund is a monetary institution, it has not been sufficiently interested in financial markets--I suggest that the contribution of the Fund to this joint study should be an annex to the spring 1987 edition of the World Economic Outlook and should be used for the comprehensive review of the compensatory financing facility. More intensive work should be done on the impact of the rapidly developing financial market innovations. Particular attention should be paid to monetary regulation and monetary aggregates in the present evolving environment, the growing market integration and its effects on international financial flows, as well as the form, currencies, and instruments used for official and private holdings and the level of stocks and flows of international liquidity. This request was made by Mr. Balladur at the latest Interim Committee meeting.

Any study of the structural adjustment facility must be reviewed by the Executive Board prior to its release, whatever the purpose of the study might be.

The paper on Japan's loan to the Fund should consider the present favorable liquidity position and favorable medium-term prospects. Furthermore, it would be useful to clarify the current rules on the mix of resources with a view to easing them.

Mr. Dallara's suggestions on indicators and surveillance are very interesting. The relevant paper should emphasize four indicators--growth rates, the balance of payments, exchange rates, and interest rates. The annual review of surveillance could be advanced from March to February. That could be an appropriate occasion on which to discuss the possibility of considering the staff reports on the Article IV consultations with the major countries in a single brief period in order to assess their interactions by using comparable data.

Because of the importance of provisioning, any paper on this topic should be circulated early enough to enable us to examine it thoroughly.

Mr. Sugita made the following statement:

I generally agree with the work program and would like to make a few comments on it.

During the previous meeting of the Interim Committee, there was general agreement that "a better use of indicators would be a helpful tool in strengthening the Fund's surveillance activities," and the Executive Board was asked to develop the application of

aired both in the Executive Board and in the Interim Committee. However, it is also expected that the staff will assess the implications of any further erosion of this facility, which might result from these and other proposals, for the capacity of the Fund to respond effectively to one of the most serious hazards that inflicts the economies of developing countries and complicates their economic management, namely, the large and often abrupt fall in the proceeds of primary products on which many of these countries are critically dependent. The implications of a further erosion of the compensatory financing facility, or of significant departures from its existing character, should be examined both from the standpoint of individual countries that benefit from the facility and from the standpoint of global economic management in the face of serious fluctuations in commodity prices and the Fund's role in that area. Moreover, as experience has shown, even Fund-supported adjustment programs can be disrupted by a large unexpected fall in the prices of primary products. Developing countries have often stressed this problem in various forums. In their recent meeting in Buenos Aires and in subsequent meetings the G-24 Ministers have in fact encouraged the Fund to move toward a liberalization and more active utilization of the compensatory financing facility, particularly in light of the recent and prospective developments in the prices of oil and of non-oil primary products.

As to the future work on SDRs, I still hope that efforts in this area will be geared more directly toward bringing about the broad consensus that is required for a new allocation. Nevertheless, some of the SDR papers included in the work program should prove to be useful.

As to the number of country items, a matter that has already been mentioned by other speakers, this chair has on previous occasions made some observations on the consultation cycle for small countries, and I can associate myself with the suggestion for discussion on this matter at an early date.

Mr. Jayawardena made the following statement:

The proposed work program is comprehensive and relevant to the tasks ahead. I too am concerned about the work load, especially for the staff, and I trust that the Chairman will not hesitate to strengthen the staff, if necessary, to get the work done.

I will comment basically on two areas. The first is the work that has to be undertaken continuously to improve our understanding of the international monetary system, the financial and goods markets, the adjustment process, the effects of Fund-supported adjustment programs, and the development process itself. I will also comment on the organization of the Executive Board's work

itself, which should draw upon the work done to comprehend the dynamics of the international system and the evolution of national economies.

Much work is being done continuously outside the Fund on the first topic that I mentioned, and we can draw on these studies. However, we are in the unique position of being at the center of the system and of having access to information that is not available to the world at large. We should make every effort to make the best use of that information. For example, I was strongly struck during our recent seminar on the theoretical aspects of Fund-supported adjustment programs by the surprising lack of empirical evidence to support the generally accepted hypotheses on how national economies function and on the behavior of international institutions and markets. I was heartened to hear the Chairman say that he plans to assign the task of evaluating Fund programs and of testing their theoretical underpinnings to the new Director of Research as a matter of the highest priority. This work must go on unimpeded--perhaps at an accelerated pace--so that we can draw on this knowledge to improve our general understanding. Similarly, the development of objective indicators to evaluate economic performance and the mutual consistency of policies of major economies must proceed. Another field that deserves our urgent attention is the world's commodity markets, price behavior in those markets, and organizational and structural changes together with their impact on producing countries.

In other words, I would like to see a well-orchestrated program of research of an empirical nature drawing on our unique access to information that will continuously provide the Executive Board with the information that it needs to meet its obligations. I have no doubt that this is how the work is organized now; I would like to see a sharper focus on main issues and perhaps deeper analysis. In addition, some tempering of economic analysis with historical evidence might be useful, an understanding of the past being a prerequisite for an understanding of the present. The Chairman has assured us that this work will come on stream during the next work program period--the period from the next Interim Committee up to the 1987 Annual Meetings. I wonder whether these studies cannot be advanced and undertaken on a continuing basis.

The main task today is to consider the proposed program of work. As the Chairman correctly stressed in his opening statement, the continued analysis of the Fund's role is at the center of our business. The Chairman has asked us to say what our priorities are in this task for the coming period. In this regard, we are fortunate to have the G-10 and G-24 reports. Perhaps the best approach is as the Chairman suggested, namely, to have a survey of the pertinent issues that are raised in the two reports. In my view, all the issues raised are pertinent and should be examined by the staff and the Executive Board. Putting this analysis

together with commentary would be a useful first step and should not take long. In fact, other organizations, such as the Commonwealth Secretariat, have already done so, although not in any great depth.

The priorities will naturally emerge from such a paper. My preliminary assessment is that priority might need to be given to the following: a design of Fund programs that recognizes the imperatives of economic growth and employment generation in adjusting countries; the need to improve access to Fund resources in order to achieve these objectives; an examination of the adequacy of the resource base of the Fund and the World Bank to achieve the same objectives, particularly with respect to the issue of quotas; and a review of the appropriate conditionality of the Fund and the World Bank's support programs, and the period over which the support is available. We cannot escape the fact that there is a growing net resource flow from developing countries to industrial countries, the commercial banks, the Fund, and the World Bank at a time when the developing world is faced with very serious problems. This is a reality that we cannot ignore. It is not enough for us merely to verbally recognize the perspective of a growth orientation in Fund programs. It is necessary to act quickly if we are to avoid the unpleasant consequences of the two major economic problems facing all developing countries today, namely, the large external debt, and the falling prices of commodity exports. Needless to say, the manner in which we respond to solving these problems will be crucial for the stable growth of industrial countries as well.

The 1987 access limits paper will be presented to the Executive Board, and in all probability the Board will ratify the recommendation of the Interim Committee. This might not be the occasion on which to look at the access question in a growth perspective. Hence, a brief paper outlining the needed access limits under the growth orientation should be attempted before the Interim Committee meeting.

I look forward to the review of the compensatory financing facility and the structural adjustment facility. I agree with Mr. Nimatallah that the review of the compensatory financing facility should take place on a single occasion, unless the discussion indicates that further analysis is required. In the Chairman's references to the study on the compensatory financing facility, he mentioned that one of the major aspects under study will be the timing and amounts of compensatory financing purchases in comparison with those under the credit tranches. I would add that there are other important issues as well. In my view, the major issues are access and relative conditionality, which in turn have an important bearing on the main feature of the architecture of the compensatory financing facility, namely, its quick disbursing character. We must go back and start with the first principles of

the compensatory financing facility and assess whether it has achieved its objectives in recent years. It will be useful to know through such analysis the impact of the recent drastic decline in commodity prices on developing countries in a quantified manner, the extent of Fund support during the period, the number of indications received from countries of their desire to use the compensatory financing facility, how many countries were able to make drawings, the percentage of shortfalls covered by drawings, and the reasons why other members did not qualify. What were the difficulties faced by these countries in failing to make urgently needed drawings under the compensatory financing facility? Did the conditionality under the facility, cross-conditionality relative to stand-by arrangements or the World Bank, or inadequacy of access discourage those countries? These issues need to be examined in a genuinely comprehensive review.

In the same vein, I welcome the planned thorough assessment of the working of the structural adjustment facility. There is a growing feeling that the facility is not working, and I wonder whether the planned review could be held earlier than March 18.

Mr. Posthumus made the following statement:

All the important subjects that need to be discussed are included in the proposed program, and I will therefore concentrate my remarks on a few areas that I would like to emphasize.

It could be useful to have a background paper outlining in broad terms the issues pertaining to the role of the Fund in the G-10 and G-24 reports and indicating the staff work that has been done in this area. The review of conditionality scheduled for March will provide a good opportunity to assess more recent experience with adjustment programs. I particularly welcome the fact that a paper on experience with adjustment in high-inflation countries will also be on the agenda. The reviews of the structural adjustment facility and the compensatory financing facility will be important.

I look forward to the discussion on the use of indicators as an aid in the efforts to strengthen surveillance. A start has been made with the use of indicators in the latest world economic outlook paper. I hope that the paper on indicators will include staff suggestions for the use of indicators in country reports. I also welcome the intention of distributing staff studies ahead of the world economic outlook discussion on subjects such as capital flight and policy coordination. Clearly it will also be necessary to review again the debt strategy, and it is important to have an Executive Board discussion on it shortly, before the Interim Committee meeting.

In the area of SDR matters, we have unfortunately not made the progress that many of us had hoped for during the various discussions on those matters. In this connection, I am pleased that the papers on exchange market intervention in SDRs and on SDRs and the reserve practices of central banks are to appear soon.

I fully support the position that the papers on the Ninth General Review of Quotas need to be looked at by the new Managing Director, and that we should therefore leave open this matter for the time being. We should not leave open the matter of staff compensation, however, and I fully agree that the Executive Board should take up this matter in the coming weeks.

Mr. Hubloue made the following statement:

The proposed work program is a faithful and judicious reflection of the Ministers' recent deliberations, and I have only a few comments to make on it.

As to our examination of the role of the Fund as mandated in the G-10 and G-24 reports, I note from the Chairman's statement that the identification and study of the issues to be covered are already well under way. Following up the recent exploratory discussion of the theoretical aspects of Fund programs, several other important issues are scheduled for consideration in the coming months with respect to the role of the Fund as both the promoter of appropriate policies and the provider of financial support for countries with balance of payments problems. Like Mr. Goos, I therefore see no urgent use for a survey paper at this time, although a progress report on our discussions would certainly be useful at a later stage, most likely after the next Interim Committee meeting.

I support the proposals that the planned review of the compensatory financing facility should be given a relatively high priority, and, in this context, I share the concerns that were expressed by Mr. Romuáldez. Although I have no specific proposals to make with respect to the format of the coming discussions on this issue, I expect that the discussions will be organized in such a way as to provide room for a timely and constructive exchange of views on the desirability of consolidating the compensatory financing facility in the light of present circumstances, so that the next Interim Committee meeting can give the Executive Board the maximum guidance concerning the implementation of this policy.

I welcome the staff's continuing work on the use of indicators in the framework of the multilateral and bilateral surveillance papers. However, it should be borne in mind that indicators should be understood not only as a means of improving the technical quality of the Fund's surveillance activities, but also and even

more important as a tool for strengthening the Fund's central role in the functioning of the exchange rate system. Such a review of indicators will call for a careful assessment at some stage of the implications of the present trend in which the Fund continues to sharpen its technical expertise while giving over the practical exercise of exchange rate cooperation itself to an ever growing number of other formal and informal bodies. On this point, I fully share the concerns that were expressed by Mr. Kafka at the previous meeting.

I welcome the simultaneous continuation of policy-oriented and more technical studies on SDR matters. The Interim Committee has given us a strong mandate to increase our insight into the potential merits of the SDR and into the possibility of overcoming the barriers to a broader acceptance of its role. Until this has been done, the subject should remain one for thorough and wide-ranging examination.

I fully share the concerns that were expressed at the previous meeting by several Executive Directors with respect to the work load and the bunching of discussions in March 1987. I would welcome any proposal for advancing the Executive Board's consideration of a number of policy issues. I could go along with the postponement of the Fund/Bank symposium on growth-oriented adjustment programs until immediately after the spring Interim Committee meeting if a number of other Executive Directors could do so.

Mr. Kabbaj made the following statement:

I welcome this opportunity to discuss the work program, with which I broadly agree. The proposed program is comprehensive and thoughtful. The Chairman has suggested that the new Managing Director should have an opportunity to include his input in the papers on the Ninth General Review of Quotas. Since the preparatory staff work on this issue will be initiated shortly, I can go along with that proposal.

The Executive Board has been given a mandate to examine expeditiously the role of the Fund as referred to in the reports of the Group of Ten and the Group of Twenty Four. I agree with the Chairman that we should set priorities, as this mandate encompasses a wide range of issues that cannot be taken up in the framework of the proposed work program, which covers less than six months. This chair has previously suggested that we should outline the totality of the issues involved and establish a plan for studies that would permit us to cover most of the items that are touched upon in the two reports. I am therefore pleased to support the proposal to have the staff prepare a "paper surveying the pertinent issues raised in the two reports and indicating the extent to which they have so far been covered in our work program."

In the area of access, program design, and the use of Fund resources, I look forward to the decision on the enlarged access policy and the access limits for 1987. While I appreciate the recommendation of the Interim Committee to continue the enlarged access policy and to maintain the access limits at their present level, I wish to note that the worsening of the situation of developing countries together with the uncertainties surrounding the world economy, international trade, and the debt situation warrant effectively higher access limits. Moreover, I feel that, given the situation with respect to commodity prices and the sluggishness of the world economy, a review of the compensatory financing facility is not warranted at this time. My understanding is that the Interim Committee did not request such a review. However, if this review is to be conducted, this chair would be opposed to any reduction in access limits under the compensatory financing facility and to any phasing of its disbursements that would run counter to the emergency nature of the facility, including its cereal component. The compensatory financing facility has been a major instrument of assistance of the Fund to members. Increasing its conditionality has already reduced its effectiveness. Going further would not only discourage further use but also weaken the major role that the Fund has been playing in trying to assist members to cope with the difficult problems that they are facing, including the debt problem.

I support the request to consider the suitability of a new cocoa agreement for support under the buffer stock financing facility. Such a request should be considered favorably by the Executive Board, given the importance of cocoa for a number of members, particularly those in sub-Saharan Africa.

As to the follow up to the interesting seminar on the theoretical aspects of the design of Fund-supported adjustment programs, I look forward to the analytical and empirical work that is to be undertaken by the staff, as requested by Executive Directors. However, I would appreciate having some external input in this work, as was suggested by Mr. Sengupta. In addition, I welcome the Fund/Bank symposium on growth-oriented adjustment programs and I commend management and the staff for their collaboration with the World Bank in the preparation of this symposium. I look forward to the staff's comments on Mr. Kafka's remarks on this matter. Meanwhile, the Executive Board has discussed program design and performance criteria. I hope that the somewhat related paper that is to be circulated shortly in examining in a broader context the two special mechanisms in the stand-by arrangement with Mexico will address the possibilities opened to other countries by these interesting innovations.

I have little to add to the Chairman's comments on indicators and Fund surveillance. As this chair has said on numerous occasions, the effectiveness of Fund surveillance is not dependent

on defining or refining techniques that the Fund staff and management have mastered only too well, but rather on the political will of industrial countries.

In the area of the world economic outlook, I welcome the preparation by the Fund and the World Bank of a report on market prospects for raw materials and the discussion by the Fund's Executive Board of that paper. I also welcome the inclusion in this report of an analysis of the impact of industrial countries' agricultural policies on the economic prospects of developing countries. However, I wonder whether we should not also discuss a staff study mentioned in paragraph 9 of the Chairman's statement concerning the interrelationship between protectionism, balance of payments adjustment, and economic growth, as well as antiprotectionist efforts in the international coordination of economic policies. I believe that these topics are at the heart of the problems facing the world economy at the present stage, and that the discussion of such a study, together with the report on market prospects for raw materials in the framework of the world economic outlook exercise would give the Executive Board and the Interim and Development Committees a complete overview of the situation.

I tend to agree with speakers who feel that the work load of the Executive Board on policy issues in March 1987 is too heavy, and that we should find ways in which to lighten it. This could be achieved through a combination of postponing some nonessential Article IV consultations, postponing some policy issues that are not of an urgent operational nature, such as SDR issues that could await an agreement on an SDR allocation, and advancing where feasible the discussion of some policy issues to January or February 1987, depending of course on the possibilities for doing so on the staff's side.

As a follow up to the Chairman's remarks at the conclusion of the discussion on Islamic Banking, Mr. Salehkhoul asked me to make the following remarks on his behalf. First, the work program does not include any further work on related issues as requested by a number of Executive Directors. While he recognizes the constraints that are outlined in the Chairman's concluding remarks, Mr. Salehkhoul feels that some progress could have been made in initiating some of the studies. Second, Mr. Salehkhoul looks forward to the publication of the paper in the Occasional Paper series, as the Executive Board decided.

Mr. Goos made the following statement:

The work program will place again extraordinary strain on management and the Executive Board as well as on the staff. Nevertheless, one has to note in fairness that the proposed program is largely predetermined by previous decisions both of the Interim

Committee and the Executive Board as well as by established operational and administrative procedures. Accordingly, apart from setting priorities, there seems to be little scope for discussing the justification of specific agenda items, and I will therefore restrict myself to making a few comments.

As to the bunching of topics in the work program for March 1987, I think that, in addition to stretching out the agenda as much as possible, every effort should be made to place those items of particular importance to the Interim Committee as early on the agenda as possible, so that our authorities will have sufficient time, in making their preparations for the next Interim Committee meeting, to take into account the results of the Executive Board's discussions.

As to the issues related to the role of the Fund, I would prefer waiting until the Executive Board has discussed the relevant topics that are already included in the work program. After those discussions, the staff could be asked to prepare a survey paper on the issues that have already been covered and on any remaining issues worthy of further consideration.

I agree with Mr. Dallara that the Executive Board should aim at an early consideration and completion of the review of the compensatory financing facility. It would be a good idea to start early in the year with a kind of exploratory paper summarizing the possible topics for discussion and inviting the Executive Board to give more specific guidance. This discussion could be held in a seminar, as Mrs. Ploix suggested. I note, of course, that a request for an additional paper might appear to be inconsistent with my concern about the overall work load. However, such a two-stage approach could eventually expedite the conclusion of the review. In any event, the planned staff paper on the review of the compensatory financing facility should cover the problem that the existing formulas under the facility produce export shortfalls even in cases in which actual export earnings are on a clear declining trend. In that context, I would suggest studying the extent to which the export environment facing developing countries today is still comparable with the typical commodity cycles that prevailed at the time of the establishment of the compensatory financing facility. I believe that the original rationale for establishing the largely unconditional compensatory financing facility was the financing of basically self-correcting fluctuations in export earnings. As to the matter of how to ease the work load, I agree with several previous speakers that the ambitious work program on the SDR should offer ample scope for postponing those SDR issues that are not of immediate importance for the next Interim Committee meeting. In this connection, I am somewhat puzzled about the reference on page 5 to an invitation by the Interim Committee to report to that Committee at its next meeting on the results of the Executive Board's examination of the concept

of the long-term global need for reserve supplementation. I failed to find any reference in the Interim Committee's latest communiqué to a study of the concept of the global need, and I would welcome any clarification of that statement.

I would like to welcome specifically the proposed paper on capital flight, which clearly deserves a separate Executive Board discussion, given the importance of the subject for the current debt problems.

I support the Chairman's proposal that the new Managing Director should be given the opportunity to express his views on how to conduct the Ninth General Review of Quotas.

Regarding Mr. Dallara's proposal to extend the concept of indicators, as a first reaction I agree with Mr. Lankester that such an exercise could be helpful to set policies in a medium-term framework, thereby avoiding undue attempts at fine-tuning.

Mr. McCormack made the following statement:

The proposed outline of the work program is comprehensive and adheres closely to the guidance that was given to the Executive Board by the Interim Committee. Much of the program is in effect predetermined. I endorse the program without any substantive amendments and have only a few comments to make.

I welcome the planned discussion on the structural adjustment facility covering the implementation of the facility thus far, cooperation with the World Bank, and the question of additional resources. In the view of the smaller Caribbean countries in my constituency, there is a need to clarify how a structural adjustment arrangement linked with a stand-by arrangement is to be distinguished from a structural adjustment arrangement without a stand-by arrangement. I hope that the staff will address this issue in the paper, because there are cases in which the distinction is of some importance.

I am pleased that a broad issues paper is planned as the first step in the review of the compensatory financing facility. I hope that the staff will also provide some background information comparing projections under the compensatory financing facility with actual outcomes as part of the overall examination of the facility. There would seem to be merit, as a number of speakers have suggested, in bringing forward at least a preliminary discussion of the facility.

In the area of SDR matters, the pivotal question remains the concept of a long-term global need for reserves. I hope that the relative emphasis in our discussions of the various SDR topics will reflect this sense of priority.

Mr. Salinas made the following statement:

The proposed work program is a fair and comprehensive reflection of the conclusions that were reached by the Interim Committee at its September 1986 meeting. In reflecting the mandate given by the Committee, the proposed program covers a number of relevant issues that are most appropriate under each major category. Therefore, I can endorse the proposed program.

I would like to stress the importance that my authorities attach to the proposed study on the main issues raised in the G-10 and G-24 reports. Both reports include a number of topics and suggestions on which the Executive Board has had extensive, although not conclusive, discussions, and I agree with previous speakers that it is time to review what has been done and what remains to be done, particularly in the areas related to the roles of the Fund, including conditionality, indicators, program design, and the Ninth General Review of Quotas.

While the questions of access limits for 1987 and the continuation of the enlarged access policy were fully addressed by the recommendations and conclusions of the Interim Committee, the picture for program design and related issues is different. There are a number of interrelated issues in this field that will have to be taken up by the Executive Board systematically and in depth. The recent seminar discussion on the theoretical aspects of program design was in my view the starting point of what should be an extensive program of analysis of the relevant issues associated with the design of Fund-supported programs. I look forward to an effective effort by the staff to provide, within the framework of the next review of conditionality, preliminary responses to a number of questions that were raised during the seminar on program design and to questions that might emerge from the next discussion on program design and performance criteria. Within the scope of these reviews of program design greater emphasis should be given to the analysis of new mechanisms that have been incorporated in recent programs, such as the contingency mechanisms in the program for Mexico. We should have clear-cut responses to the way in which these mechanisms are activated, how they fit in the overall approach, how they effectively work, and how they can be generalized in order to become part of traditional Fund programs.

For the review of the compensatory financing facility, my authorities attach great importance to the analysis of the experience with the facility in recent years, including the effective access to Fund resources that has been provided and the degree of conditionality that has been attached to such requests.

I fully agree with the proposal to have a discussion on the use of indicators in multilateral surveillance before the end of January, so that the outcome of the discussion can be incorporated

in the next world economic outlook paper. I would stress the need to use economic indicators in the context of both multilateral and bilateral surveillance to enhance policy coordination and to reduce inconsistency among the policies of major industrial countries. The use of quantitative indicators is particularly relevant in such areas as exchange rate and interest rate developments, as well as in growth and trade policies of the major industrial countries, and they could play the role of a trigger mechanism for international consultations whenever there is divergency from a desired agreed path or whenever there are emerging inconsistencies among international objectives.

In the area of SDR matters, my authorities continue to favor having a discussion on the role of the SDR as a reserve asset and as a means for increasing international liquidity. The regrettable lapse of the fourth basic period without any SDR allocation makes it particularly important to work intensely on this topic.

I believe strongly that the prompt initiation of the work on the background documents for the Ninth General Review of Quotas will be required in order to gain as much time as possible. There is a clear need to increase the Fund's resources in the light of the persistence of the large imbalances in many developing countries and because of the scarcity of alternative sources of financing to support these countries' adjustment efforts. The background papers on quota calculations and their different formulas and schemes could be initiated without delay, as they basically represent checks and appropriate statistical arrangements of basic data that do not imply any needed commitment to a specific size of the quota increase under the Ninth General Review.

The Chairman said that the discussion had clearly shown that Executive Directors wished the staff to survey the chapters on the role of the Fund in the G-10 and G-24 reports, indicating the pertinent issues that had been raised in the reports and the extent to which they had been covered thus far in the Executive Board's work programs.

A number of remarks and suggestions were made on access, program design, and the use of Fund resources, the Chairman recalled. Mr. Dallara had indicated that in its follow-up work on the design of Fund-supported programs the staff should focus on supply-side aspects of those programs. That suggestion fitted well with the seminar discussions and had been supported by other speakers during the present discussion.

Reservations about the proposed Fund/Bank symposium had been expressed by Mr. Kafka, the Chairman noted. The majority of Executive Directors apparently broadly supported the symposium, the design of which had been changed in response to Executive Directors' comments during the recent discussion on the symposium proposal. The present proposal seemed

to meet most of the concerns that Executive Directors had expressed. He was confident that Executive Directors would have every opportunity to participate in the symposium.

The staff representative from the External Relations Department said that the intention was to have Executive Directors from both the Fund and the World Bank participate as fully as possible in the symposium both as chairmen of sessions and as discussants of papers. There would be at least ten places at the table for Executive Directors at every session of the conference, and Executive Directors who were not seated at the table would have a microphone available so that they could participate whenever they wished to do so. In sum, Executive Directors were to have the opportunity to be intimately involved in all aspects of the symposium. The staff would try to have all the relevant papers available by February 1, 1987, thereby allowing the papers to be circulated three and one half weeks prior to the symposium. Most of the authors of the papers had been at work on them since June 1986; they were therefore likely to have sufficient time to produce high-quality papers.

The Chairman stated that every effort would be made to cover the issues concerning the structural adjustment facility that were mentioned by Directors, particularly collaboration with the World Bank, the catalytic role of the facility, and the initial implementation stage of the facility.

The Director of the Exchange and Trade Relations Department remarked that the negotiations with both the Fund and the World Bank on a structural adjustment arrangement had been a problem for some countries, and the matter would be reviewed in the staff paper on the structural adjustment facility. The paper would also examine the additionality of the financing under the facility. However, the staff paper would be difficult to write largely because of timing issues involved. The last relevant staff mission would not return to headquarters until about January 21, and it would be difficult to complete the paper much before that date, partly because the text would have to be cleared with the World Bank.

The Chairman commented that he agreed with Executive Directors that there should be a separate discussion on the staff's empirical examination of adjustment in high-inflation countries. The staff could attempt to have the relevant paper available in time for the discussion on issues in the implementation of conditionality and experience with adjustment programs, but the discussion on adjustment in high-inflation countries should be separate.

The Director of the Exchange and Trade Relations Department said that in the staff paper on issues in the implementation of conditionality and experience with adjustment programs that was scheduled to be examined on March 6, the staff would make every effort to be responsive to the issues that had been raised in previous discussions, including the discussions on the theoretical aspects of Fund-supported programs. The paper

would not be the only response to the issues that had been raised, however. The proposed symposium was another part of the response, and further contacts with experts outside the Fund would be made.

The Chairman added that there was considerable ongoing work on conditionality and program design. There was to be another discussion of those issues on December 3, and there was to be a more systematic review of conditionality in March. Hence, the thrust of the future work of the staff was clearly aimed to an important extent at addressing the issues related to program design and conditionality.

The Acting Director of the Research Department commented that the proposed two-stage approach to the review of the compensatory financing facility seemed to be constructive. The staff was prepared to make the first paper available at a fairly early date. Making the paper available as early as January might well be difficult, but the paper could probably be circulated before March. The paper should identify the various issues and invite the Executive Board's guidance on them. It would be difficult to make a commitment at the present stage to the date of the distribution of the second paper. Such a commitment probably should not be made until after the first paper had been discussed in the Executive Board, thereby giving the staff a better idea of what the Executive Directors hoped to see in the second paper. The staff had a considerable accumulation of data, the analysis of which could provide useful answers to questions that Executive Directors had already raised and might pose in the initial discussion on the review of the compensatory financing facility. It would be unfortunate not to use the available data to the extent possible and to miss an opportunity to conduct as thorough a review as possible. Hence, the time between the first and second discussions on the review of the facility should not be excessively short. If the first discussion were held in February, there might not be sufficient time to prepare a second paper and hold a second discussion before the April meeting of the Interim Committee.

Responding to a question, the Acting Director said that the initial staff paper on the review of the compensatory financing facility would include a historical review of the genesis of the facility and the reasons for the various amendments of the decision on compensatory financing. It would also analyze how the facility had worked and describe the changes in the world economy and new perceptions that had influenced the role that had been foreseen for the compensatory financing facility. The paper would address the way in which the facility had helped members to deal with the external shocks of recent years. The staff was aware of Executive Directors' other concerns with respect to the facility and would reflect them in the paper.

One Executive Director had questioned the meaning of the reference in the Chairman's opening statement to the intention of the staff to outline in its new paper on indicators some of the work that the staff proposed to undertake on the application of indicators in the design of economic policy, the Acting Director of the Research Department recalled.

That reference was to the staff's general analysis of the usefulness of indicators in economic policy formulation; it did not refer to an analysis of particular countries and particular policies in those countries at the present stage. However, the Chairman had also referred to the use of indicators in surveillance and in discussions with countries on a bilateral basis. In approaching that subject, the staff first had to make a kind of general analysis of the possible role of indicators in policy discussions.

The Director of the Exchange and Trade Relations Department remarked that the scheduled discussion on the annual review of the implementation of surveillance had already been advanced from the previously scheduled date of April 1, 1987 to March 2, 1987. It would be difficult to advance the date any further. The new Managing Director would undoubtedly wish to have an input in the policy papers that were to be discussed in the first months of 1987. The paper for the annual review of surveillance would be relatively straightforward. The staff would make every effort to distribute the relevant paper in the first week of February. It would cover issues that had been raised by Executive Directors, including procedures of the Executive Board that had been the subject of recommendations by, among others, Mr. Lundstrom and Mrs. Ploix. The issues of enhanced surveillance and the role of bank steering committees in the debt strategy would be covered in the staff paper on the debt strategy.

The Acting Director of the Research Department said that the staff intended to distribute the supplementary world economic outlook studies well before the main world economic outlook paper, so that the studies could be considered separately, if the Executive Directors wished to do so. Accordingly, a separate discussion on the paper on capital flight could be held prior to the regular discussion on the world economic outlook.

The Chairman remarked that the discussion on the debt strategy could be held immediately after the conclusion of the discussion on the world economic outlook--probably on March 20, 1987.

Mr. Lankester said that the separate discussion on capital flight could usefully be held in February.

Mr. Ortiz commented that he would prefer to discuss the paper on capital flight in a seminar.

The Chairman remarked that it would be sensible to discuss the debt strategy after the discussion of the world economic outlook, so that the discussion on the strategy could take into account the outlook for the world economy. The work on the staff papers on market prospects for raw materials and the impact of industrial countries' agricultural policies on developing countries' economic prospects--and, as several speakers had suggested, an analysis of major developing countries' agricultural policies--would be undertaken largely by the World Bank. The Fund would make every effort to avoid duplicating the efforts of the World Bank in those areas.

A number of Executive Directors would like to reduce the discussion on SDR matters in the coming period to the extent possible in order to reduce the work load and to concentrate on creating a consensus in favor of an allocation, if possible, the Chairman commented. Mr. Kyriazidis, Mr. Puro, and others had indicated that in their view the examination of the concept of a long-term global need should be given a high priority if the Fund was to gain a better understanding of the SDR issues. The subject of the concept of a long-term global need could usefully be discussed in January or February.

The Acting Director of the Research Department noted, in response to a question by Mr. Goos, that the latest communiqué of the Interim Committee stated in part that "the Committee welcomed the intention of the Executive Board to study further the long-term global need for reserve supplementation in the context of the conditions under which the international monetary and exchange systems are now operating. It invited the Board to report on the results of this examination and on the progress made about an allocation at the Committee's next meeting."

Mr. Goos said that he did not take the text that the Acting Director of the Research Department had noted as a request by the Interim Committee for a study of the concept of the long-term global need for reserve supplementation. The Interim Committee's request in the past to consider a possible allocation of SDRs had always referred to the concept of the long-term global need because that was the relevant criterion that was stipulated in the Articles.

The Chairman remarked that the latest request by the Interim Committee was qualified by the reference to the concept of the long-term global need "in the context of the conditions under which the international monetary and exchange systems are now operating." That reference was an invitation to the staff and the Executive Board to try to gain a fuller understanding of the impact of the present conditions on the concept of a long-term global need in comparison with the relevance of that concept under conditions in earlier periods. In order to respond fully to the Interim Committee, the staff should conduct the kind of study that the Acting Director of the Research Department had mentioned. Management and staff were in the hands of the Executive Board with respect to the work on other SDR matters. In his view, they should be addressed in the light of the Interim Committee's communiqué. He had mentioned that the Interim Committee had requested the Executive Board to continue its discussions of proposals to enhance the contribution of the SDR to the creation and allocation of international liquidity. Moreover, in that connection, and in light of Executive Board discussions, follow-up papers were being prepared on possible improvements in the pattern of holdings and use of SDRs, and on further ideas that had been mentioned by Executive Directors on the postallocation redistribution of SDRs. He had not mentioned specific dates for the issuance of those papers; he had said merely that they could be distributed "in the first part of 1987," and that two other papers--on exchange market intervention and a clearing facility--could be issued "before the end of the year." At

the present discussion, Executive Directors seemed to have a sense of urgency about the examination of the concept of the long-term global need for reserve supplementation and allocations. It was his understanding that Executive Directors did not insist upon the early issuance of the papers on the other SDR matters; the papers on those other matters would be distributed as soon as they were available, but the Executive Board need not move quickly to place them on its agenda.

The usual preparatory work for a general review of quotas was being undertaken by the staff, the Chairman explained. There was no need to engage in a discussion of the concepts and the timing of the relevant papers at the present stage.

Apparently Executive Directors would like the staff paper on provisioning to be completed as quickly as possible, the Chairman commented. That paper was a difficult one and, if possible, it would be issued before the end of 1986. Mr. Nimatallah had suggested that the technical papers on the postponement of repurchase obligations, payment of charges in domestic currency, and suspension of Fund membership could conveniently be discussed together with the staff papers on the next six-monthly review of overdue financial obligations to the Fund together with the review of special charges and a paper on the use of currencies of members in arrears. However, it was highly unlikely that the staff would be able to prepare the additional papers in time for them to be added to the agenda for December 8.

The Secretary recalled that Mr. Mawakani had asked why, although staff discussions were to be held with 15-20 members concerning requests for stand-by or extended arrangements and with over 20 members concerning requests for structural arrangements, the number of such requests that was placed on the Executive Board agenda would likely be smaller. The answer was that experience clearly showed that not all of the negotiations with members were successfully concluded, and that some negotiations would last beyond the period of the proposed work program. The text of the Chairman's opening statement that Mr. Mawakani had questioned was merely a statement of caution.

The Chairman remarked that Mr. Kabbaj had made the helpful suggestion that the paper on the interrelationship between protectionism, balance of payments adjustment, and economic growth could be circulated as a background document for the discussion on the world economic outlook.

The staff representative from the Exchange and Trade Relations Department remarked that the staff's next paper on developments in international capital markets would include a review of further experience with financial innovations and other issues that had been identified in the Cross report. Particular prominence would be given to those issues that were relevant to the role of the Fund, including experience in the area of monetary policy. As in the present year, the staff intended to distribute the 1987 paper on developments in capital markets in time for a discussion in the Executive Board prior to the Annual Meetings; that

discussion would thus occur at about the same time as the review of the world economic outlook. The paper would cover the evolving debt situation as well as market developments in industrial countries and their impact on the system. The staff would assess the implications of those developments for the way in which capital was allocated in the system and any problems in that respect that might be apparent. While the world economic outlook exercise would cover policy coordination and the capital markets report would deal with institutional aspects of the impact of innovations, the question of how innovation and liberalization affected the transmission process in domestic economies and between economies would also have to be addressed.

Mr. Ortiz noted that innovations in international capital markets were typically discussed together with the review of the debt situation, thereby making it difficult to pay sufficient attention to the innovations. It would be helpful to hold a separate discussion on innovations in capital markets at about the time of the discussion on developments in capital markets.

The staff representative from the Exchange and Trade Relations Department said that it was true that the staff paper on capital markets and Board discussions had tended to concentrate more on the debt situation than on other issues because of the operational implications of the debt strategy for the Fund. It might well be useful to have a separate discussion on innovations, perhaps in a seminar.

The Chairman noted that some Executive Directors had stressed that the work on the debt strategy should focus more than hitherto on the debt problems facing low-income countries. Although such problems did not have a systemic effect, they were of crucial importance to the low-income countries themselves.

The Director of the Exchange and Trade Relations Department said that the request for a greater focus on low-income countries would be met. The staff intended to cover official and commercial debt in its assessment of the debt strategy; it would include the evolution of activity in the Paris Club.

Mr. Templeman commented that the staff should also pay sufficient attention to the catalytic role of the Fund in a broad sense. While some countries might well require full-scale Fund-supported adjustment programs, others might require something less substantial.

Mr. Lankester said that he continued to believe that it would be useful to examine reforms in foreign exchange markets. A number of African countries, such as Ghana, Nigeria, and Zambia, had introduced systems of foreign exchange auctions, and it would be helpful to review the experience with those auctions. The Fund and the World Bank had recommended the introduction of the auction mechanism for a number of

countries, and it was the kind of innovation that the Fund should monitor. The examination of such reforms need not take place in the immediate future, but he hoped that a discussion of them could be held in due course.

The Chairman recalled that Mrs. Ploix had asked to include the cereal facility in the review of the compensatory financing facility. There were likely to be two discussions on the review of the compensatory financing facility, and the cereal facility was likely to be covered in those discussions.

It had been suggested by Mr. Kafka that the staff should include the evolution of the exchange rate system in its work for the coming period, the Chairman noted. However, the staff had recently prepared significant studies on the exchange rate system and it was for that reason that the matter was not covered in the proposed work program. There had not been many comments on that subject during the present discussion, and he doubted whether the Executive Board wished to discuss the matter in the period covered by the proposed work program. Of course, the subject could be brought to the agenda later, if Executive Directors wished to discuss the so-called understandings that were reached between a small number of member countries.

On the Islamic banking system, the Chairman remarked that the Executive Board had held an interesting seminar discussion, and the paper for that discussion was to be published. Further thought would have to be given to possible additional studies, but he was not in a position at the present meeting to say when the studies might be undertaken. Finally, the staff would circulate in the coming days a revised tentative schedule of Executive Board meetings based on the present discussion.

The Executive Directors concluded their discussion of 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/86/178 (11/10/86) and EBM/86/179 (11/10/86).

2. GREECE - INQUIRY UNDER ARTICLE VIII, SECTION 2(b)

The Director of the Legal Department is authorized to transmit the letter contained in Attachment C to EBD/86/290 (11/4/86).

Decision No. 8445-(86/179), adopted
November 10, 1986

3. ICELAND - REQUEST FOR TECHNICAL ASSISTANCE

In response to a request from the Icelandic authorities for technical assistance in connection with a revision of the personal and corporate income tax legislation, the Executive Board approves the proposal set forth in EBD/86/293 (11/5/86).

Adopted November 10, 1986

APPROVED: June 29, 1987

JOSEPH W. LANG, JR.
Acting Secretary