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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/81

10:00 a.m., May 29, 1985

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	
C. H. Dallara	M. Lundsager, Temporary
J. de Groote	
	X. Blandin
M. Finaish	T. Alhaimus
H. Fujino	M. Sugita
	D. Hammann, Temporary
	Jaafar A.
R. K. Joyce	L. Leonard
	H. A. Arias
	H. Fugmann
E. I. M. Mtei	A. Abdallah
F. L. Nebbia	B. Jensen
Y. A. Nimatallah	E. M. Taha, Temporary
P. Pérez	
J. J. Polak	J. de Beaufort Wijnholds
C. R. Rye	
G. Salehkhou	
	A. S. Jayawardena
N. Wicks	T. A. Clark
S. Zecchini	N. Coumbis
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. M. Oppenheim, Assistant

Also Present

IBRD: U. A. Hewer, Western Africa Regional Office. Administration Department: J. G. Keyes. African Department: A. D. Ouattara, Director; E. A. Calamitsis, S. E. Cronquist, A. Jbili, M. Sidibé. Asian Department: Tun Thin, Director. European Department: L. A. Whittome, Counsellor and Director. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; E. H. Brau, G. Belanger, G. G. Johnson. External Relations Department: A. F. Mohammed, Director; N. K. Humphreys, Chief Editor. Fiscal Affairs Department: V. Tanzi, Director. IMF Institute: J. L. Demboua-ngongo, Participant. Legal Department: J. G. Evans, Jr., Deputy General Counsel; Ph. Lachman. Middle Eastern Department: B. A. Karamali. Research Department: R. R. Rhomberg, Deputy Director; N. M. Kaibni. Secretary's Department: A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; T. B. C. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; W. L. Coats, D. Gupta. Bureau of Computing Services: A. Coune. Bureau of Language Services: A. J. Beith, Director. Bureau of Statistics: W. Dannemann, Director; J. B. McLenaghan. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: G. R. Castellanos, K. A. Hansen, S. M. Hassan, J. Hospedales, G. E. L. Nguyen, J.-C. Obame, P. Péterfalvy, G. W. K. Pickering, M. Z. M. Qureshi, T. Sirivedhin, A. Steinberg, D. C. Templeman, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: I. Angeloni, M. B. Chatah, J. J. Dreizzen, G. Ercel, C. Flamant, N. Haque, G. D. Hodgson, S. Kolb, R. Msadek, K. Murakami, A. Mustafa, E. Olsen, W. K. Parmena, J. Reddy, J. E. Rodríguez, C. A. Salinas, A. A. Scholten, A. J. Tregilgas, E. L. Walker.

1. REPORT BY MANAGING DIRECTOR

The Managing Director, reporting on his recent visit to Hungary and Austria, informed Directors that he had met first with a number of Hungarian officials, including the First Secretary of the Party, the Secretary of the Central Committee of the Party, the Prime Minister, the Minister of Finance, and also with the management of the Central Bank. He had been greatly impressed by the leadership and knowledge of those officials, who saw cooperation between the Fund and Hungary as an important element in their economic strategy. The understanding that existed between the Fund and Hungary was reflected not only in words, but also in actual policies. From Hungary he had traveled to Austria, meeting with the Minister of Finance and also with the President of the Central Bank and, before returning to Washington, had consulted briefly with French officials in Paris.

2. CENTRAL AFRICAN REPUBLIC - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper on a review under the stand-by arrangement for the Central African Republic (EBS/85/108, 4/30/85).

Mr. Alfidja, noting that all the performance criteria under the program had been observed, remarked that, in the fiscal sector, the impact of such measures as higher taxes on petroleum products, improved collection of tax arrears, and a freeze on wages and salaries had significantly reduced the cash-based deficit to CFAF 2.7 billion, equivalent to 1.4 percent of GDP. The authorities would continue their efforts to contain spending on education and on public sector wages, and would release only 90 percent of budget appropriations to the spending ministries. The authorities, aware that cuts in spending could not be the sole source of fiscal adjustment, intended to seek technical assistance from the Fund and bilateral sources on ways to increase revenues. In the external sector, the projected growth of exports would, in line with the program forecast, reduce the current account deficit from 13.5 percent of GDP in 1985 to 7.5 percent in 1988.

In conclusion, Mr. Alfidja said, the measures taken by the C. A. R. authorities, as assisted by foreign aid donors and multilateral institutions, had played a significant role in returning the economy to a sustainable growth path. The authorities were committed to making further adjustments and sought the support of both public and private institutions in order to achieve further progress.

Mr. Blandin remarked that the Central African Republic had taken the necessary first steps in adjusting toward a sustainable and balanced growth strategy. Factors outside the authorities' control--especially the severe drought in 1983--had exacerbated the costs of adjustment from 1981 to 1983. However, better weather in 1984, together with the authorities' resolution in taking a series of unpopular policy measures--including a reduction of government employment, a freeze on civil servant wages that would continue in 1985 for the third year in a row, and a compulsory borrowing of one month's salary from government employees--had been the significant factors behind the improvement in economic performance. Further reductions in the fiscal deficit would require a significant broadening of the tax base coupled with a serious effort to strengthen tax collection. Such changes were particularly important if there were to be any increase in development expenditures.

The time was right to give more emphasis to supply-side measures so that the country could realize its potential through a better allocation of resources, Mr. Blandin considered. For example, the 4 percent increase in the producer price for coffee was lower than the projected rate of inflation and would consequently translate into a real price reduction. Even allowing for transport costs, coffee producers still received too small a proportion of the pie.

Additional supply-side measures, particularly a restructuring of the public sector, had to be implemented, Mr. Blandin concluded. He would appreciate information on the future role of the World Bank in the Central African Republic and whether the country would be eligible for assistance from the special facility for sub-Saharan Africa in the following two years.

Mr. Mtei, noting that the return of favorable weather in 1984 had facilitated increases in agricultural production, river transport, and hydroelectric power for the industrial sector, commended the authorities for setting appropriate producer prices to stimulate crop production and for lowering the diamond export tax to encourage the growth of official diamond exports, currently expected to increase by 17 percent in 1985. At present, the Central African Republic was significantly closer to fulfilling the objectives of the adjustment program--budgetary equilibrium by 1986-87 and a reduction of the current account deficit to a sustainable 7.5 percent of GDP by 1988, from 9.1 percent in 1983.

However, in fiscal policy, the fulfillment of the performance criteria in 1984 had been overly dependent on restraint in government expenditures, Mr. Mtei recalled. In 1985, given an inflation rate of 8 percent, the growth rate of nominal government expenditure, excluding interest on external debt, would be less than 2 percent, thereby reducing the budget deficit, on a commitment basis, to only 2.2 percent of GDP. Although it would bring the objective of budgetary equilibrium within reach, such a stance would not be sustainable unless tax elasticity were to increase and the present tax ratio of 12.3--low by comparison with that in countries at the same level of development--were also to increase. In 1984, only an intensified effort in tax collection toward the end of the year had enabled the authorities to meet their performance objectives; he urged them to undertake an early review of the tax system. On the progress made by the Central African Republic toward reducing the current account deficit to a sustainable level, Mr. Mtei said, he was not entirely convinced that the authorities would meet the program targets. The restrictions on domestic credit that had been responsible in 1984 for narrowing the current account deficit to 16.2 percent of GDP would be less stringent during 1985, as domestic credit was expected to expand by 12 percent. The authorities' projections--that the current account deficit would narrow to 13.5 percent of GDP in 1985 and further to 7.5 percent of GDP by 1988--were based on a set of optimistic assumptions, including normal weather and marginal improvements in the terms of trade.

Mr. Taha, observing that all significant macroeconomic indicators for the Central African Republic had improved in 1984, commended the authorities for their efforts to implement appropriate demand management policies. Nevertheless, only if the authorities were able to implement the supply-side measures necessary for sustainable real growth into the medium term would they have room to settle external arrears as quickly as possible. Firm control on government expenditure, the collection of unpaid taxes, and the reform of public enterprises were necessary preconditions, within the context of a sustainable fiscal balance, for increasing capital spending on development projects. With a fall in government demand for credit, private sector credit requirements could be accommodated within a noninflationary framework conducive to real growth.

Ms. Lundsager noted that the current program was basically in line with performance criteria and that official exports of diamonds had increased following the reduction in the export tax. She wondered nonetheless whether the progress through March and April provided assurance that end-May performance criteria could be met. Although fiscal policy appeared to be meeting program goals, there were certain causes for concern. First, without receipts from the Exchange Guarantee Fund, the fiscal target would have been missed owing to shortfalls in tax revenue. Second, although there had been some reforms in the parastatals, it was not clear why transfers, subsidies, and materials and supplies were not showing greater adjustment. Third, the increase in the share of coffee-marketing profits that the Treasury had received raised concerns about the adequacy of producer incentives. Finally, the projection for the 1985 budget deficit reduction was based on the optimistic assumption that improvements in tax administration and collection would yield benefits more quickly than they had in the past.

Since the broad outlines of C. A. R. monetary policy were set by the Banque des Etats de l'Afrique Centrale (BEAC), Ms. Lundsager said she was concerned that interest rates might become negative in real terms in 1985, in view of the projected increase in inflation. There might be a case for the BEAC to re-examine its interest rate policy, given the need to increase domestic savings and thereby provide more domestic resources for development investment. Furthermore, as exchange rate policies were important in stimulating the supply side of the economy, the Fund should analyze in more depth the exchange rate policies of countries that were members of monetary unions.

Although in the medium term it appeared that a viable payments position could be attained within two to three years, the follow-on program envisaged by the authorities would raise the debt service ratio above that projected for 1988 and beyond, Ms. Lundsager observed. While planning how to achieve a sustainable medium-term budgetary and external position, the C. A. R. authorities should bear in mind that the debt service generated by use of Fund resources was not without cost. Finally, as the Central African Republic had fallen into arrears on debt service to the United States arising from past debt rescheduling agreements, she urged the authorities to fulfill those commitments and become current in their obligations. Despite those serious concerns, she could support the proposed decision.

Mr. Hammann, while commending the authorities for their efforts to implement the adjustment program, observed that there had been some slight deviations from the program targets, for example, in revenue collection and in the worse than expected trade balance, which highlighted the fragility of the balance of payments position. Given the wishes of the authorities to conclude a follow-on program, he suggested that the issues of prolonged use of Fund resources, the already relatively high financial obligations to the Fund, and the overall external indebtedness of the Central African Republic should be taken into account in designing the program and determining the extent of the Fund's financial support.

The staff representative from the African Department explained that the authorities were aware of the fact that the ratio of tax receipts to GDP had been declining. In order to remedy the situation, the administration of tax collection should be enhanced, and the authorities were contemplating whether to request technical assistance from the Fund in that effort. On other matters, although the producer price for coffee in real terms had declined over the last few years, producers had also benefited from the provision of extension services and free inputs of fertilizers and insecticides. The increase in producer prices was being discussed with the World Bank with a view to achieving a better balance between the financial interests of the stabilization fund and the need to improve producer incentives.

Given the four-to-six week delays in the availability of data, the staff representative agreed that it was difficult to indicate at the present stage what developments had occurred during the first quarter of 1985 and whether the main performance criteria had been observed. A staff mission was due to visit the Central African Republic shortly, and, on its return, the Fund would be in a better position to state whether or not the performance criteria for May had been observed. Government expenditures had borne the brunt of adjustment over the last few years; in view of the importance of current expenditures in the government budget, emphasis had been placed on restricting increases in government employment and the wage bill and on limiting the nominal level of public subsidies. As for the state enterprises, the Government was studying a proposal to liquidate a number of them if they could not be privatized.

The staff representative from the IBRD stated that the World Bank would remain involved in rural development, in education, and in the provision of improvements in infrastructure. The Bank would support new initiatives when the current projects had been completed and, for the first time, was considering ways of supporting small-scale manufacturing in the Central African Republic. Although the country's landlocked situation would inevitably result in high production costs, the World Bank considered that an enlargement of private manufacturing was necessary to provide employment for those people who in the past might have been employed in a growing public sector.

The World Bank would carry on providing technical assistance to the Government in preparing policy measures, investment projects, and an overall development strategy, the staff representative form the IBRD noted. The objective of the second technical assistance project was to provide the Government with assistance based on a comprehensive rather than a piecemeal emergency approach. A mission, expected to be in the Central African Republic in June, would survey the whole agricultural development strategy and institutions of the country so that the Bank might be able to provide more comprehensive policy assistance. There were also encouraging signs in the Government's decision to privatize public forestry enterprises, as evidenced by the recent privatization of a public forestry company. Finally, it was still too early to say whether the Central African Republic would be eligible for drawings under the Special Facility for Sub-Saharan Africa, although eligibility was likely if progress continued as it had in the previous two or three years.

The Executive Board then took the following decision:

1. The Central African Republic has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for the Central African Republic (EBS/84/121, Sup. 2), and paragraph 3 of the letter of the Minister of State in Charge of Economy and Finance dated May 22, 1984, attached to the stand-by arrangement, in order to reach understandings subject to which further purchases may be made by the Central African Republic under the stand-by arrangement.

2. The letter from the Minister of State in Charge of Economy and Finance dated April 29, 1985 shall be annexed to the stand-by arrangement for the Central African Republic, and the letter of May 22, 1984, supplemented by the letter dated December 19, 1984, shall be read as supplemented by the letter dated April 29, 1985.

3. The references in paragraph 4(a) of the stand-by arrangement to paragraphs 6 and 9 of the letter of May 22, 1984 and to Table 2 of the memorandum annexed to that letter (relating to the limits on total domestic credit and net bank

credit to the Treasury, and on the amount of new nonconcessional external borrowing by the Government, as well as to the target for reduction in domestic and external arrears), read as references to paragraphs 8 and 9 and Table 1 of the letter dated December 19, 1984, shall be read as references to paragraph 13 and Table 2 of the letter dated April 29, 1985.

4. (a) Subparagraph (c) of paragraph 4 of the stand-by arrangement shall be deleted, and subparagraph (d) shall be designated subparagraph (c).

(b) The following paragraph shall be added after paragraph 4, with paragraphs 5 through 10 to be renumbered as 6 through 11:

> "5. The Central African Republic will not make purchases under the stand-by arrangement during any period of the arrangement in which the Central African Republic has overdue financial obligations to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase."

Decision No. 7988-(85/81), adopted
May 29, 1985

3. WORK PROGRAM

The Executive Directors discussed the work program until the 1985 Annual Meeting.

The Managing Director made the following statement:

> Following the Interim and Development Committee meetings, we should as usual have an exchange of views on the work program. In this statement, I shall be concerned primarily with the period until the Annual Meetings.
>
> 1. Improvements in the functioning of the international monetary system
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> In its communiqué, the Interim Committee noted "that improvements of the international monetary system were currently under study" and agreed that these issues would be reviewed at its next meeting in Seoul. The Committee also urged that "consideration be given, within the context of the policy of uniform treatment of members, to means of increasing the effectiveness of surveillance over the policies of those industrial and developing countries which have a significant impact on the functioning of the world economy."

As you are aware, the studies on possible improvements in the international monetary system being conducted by the Group of Ten include the subject of strengthening the effectiveness of surveillance; the three other topics covered by the study are the functioning of floating exchange rates; the management of international liquidity, and the SDR. The report of the Group of Ten is expected to become available to the Fund in the summer, after it has been discussed by the Ministers and Governors on June 21. When the report becomes available, it will be necessary to take a view as to how the Executive Board could best contribute to the preparation of the discussion in the Interim Committee. Accordingly, a first Board discussion on this matter could be scheduled in July, with further consideration to take place after the informal recess.

2. World Economic Outlook

The staff will carry out an update of the recent World Economic Outlook exercise for consideration by the Executive Board in preparation for the Interim Committee meeting in October. It will assess prospects and conditions for the sustainability of the recovery in the light of developments in interest and exchange rates, fiscal and monetary policies in the major industrial countries, external adjustment in the deficit and surplus countries, and the debt situation. The staff paper entitled "World Economic Outlook - General Survey" will be issued in the last week of August for consideration in the Executive Board on September 16.

Publication last year of the update of the World Economic Outlook was well received, and timing of the publication immediately after the Annual Meetings was found to be appropriate. As agreed during our recent discussions on the outline and procedures of the Fund's Annual Report, it is intended to publish the updated World Economic Outlook this year also. As usual, Executive Directors will have an opportunity to offer specific comments prior to publication.

3. The Fund's catalytic role with respect to external finance

Executive Directors have already received the staff report for the first midyear Article IV enhanced surveillance consultation with Venezuela, and developments in monitoring arrangements in the context of debt reschedulings are of considerable interest at this time. In this connection, the Interim Committee communiqué welcomed "the intention of the Paris Club to consider, in particular cases, multiyear reschedulings in close cooperation with the Fund, where debtor countries have a proven record and continuing prospects of sound adjustment." It also underscored the importance it attached to "the role of the Fund...as a financial catalyst." Since the previous Board discussion of surveillance, the Paris Club has agreed to a multiyear rescheduling arrangement for Ecuador, and rescheduling for the third year under this arrangement might be based on enhanced surveillance by the Fund. A report on the particulars of this arrangement with Ecuador will be circulated shortly to Executive Directors.

A particular modality of monitoring by the Fund is a request of the Colombian authorities to link disbursements of "new" bank money to Colombia to performance under a policy program that the country plans to submit to the Fund for its endorsement and monitoring. Management will have a further informal exchange of view with the Executive Directors regarding this matter.

These developments and experience in the Fund's role in assisting members to mobilize external resources will be covered in the annual staff report on "International Capital Markets - Recent Developments and Prospects," and specific issues for Board consideration will be identified. In its survey of capital markets, the report will pay particular attention to developments in the bank debt situation, to the changing pattern of flows in the financial markets, and to innovation and liberalization in those markets. It is planned to issue the paper in September for consideration in the Board immediately after the Annual Meetings.

4. Use of Fund resources and liquidity review

The Fund is required to review annually, so long as it remains in effect, Decision No. 6783-(81/40) authorizing the Fund to provide enlarged access under stand-by or extended arrangements. The next review, to be completed by the end of 1985, should consider the future of the policy on enlarged access in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity. If the Interim Committee were to place this matter on the agenda for its October meeting, the staff would prepare a paper entitled "Review of Enlarged Access and Access Limits for 1986" and a companion paper entitled "Review of Access Limits Under the Special Facilities" for consideration by the Executive Board in the first part of September. Otherwise the subject of access limits in 1986 would be taken up in the Executive Board before the end of the year. For the Board discussion on access limits, Executive Directors will also have on the agenda a paper on "The Fund's Liquidity and Financing Needs," which will provide an analysis of the implications of access limits in 1986 for the liquidity and financing needs of the Fund. If issued for discussion in September, this paper will also include a semiannual review of the Fund's liquidity and financing needs; otherwise, a separate paper will be prepared for the semiannual review.

In its recent communiqué, the Interim Committee has requested that "the Executive Board, in the light of its 1980 decision, consider the use of the resources that will be available following repayment of loans that have been made by the Trust Fund, to help forward the adjustment process by providing assistance to low-income developing countries, and that the Managing Director report to the Committee on this matter by the time of the next meeting of the Committee in Seoul." In response, the staff plans to prepare a paper called "The Use of Resources of the Special Disbursement Account Arising from the Termination of the Trust Fund," which has been scheduled for Executive Board consideration on September 4.

5. SDR matters

The Interim Committee communiqué states that "while the SDR constitutes an integral part of the structure of the Fund, it was not possible to reach the degree of support required for ...an allocation [in the current basic period]. The Committee agreed to consider the matter again at its next meeting in the light of developments." In preparation for the consideration by the Interim Committee of this matter at its meeting in October, Executive Board discussion of the question of SDR allocations in the current basic period has been scheduled tentatively for August 30. Since the Executive Board has exhaustively discussed this issue on a number of occasions in recent years, the staff intends to prepare a short paper reviewing pertinent considerations for SDR allocations.

At the time of the Executive Board discussion last March of SDR allocations, one of the points made was that there was a need for improving the analysis of the effects on global liquidity of the large and increasing current account deficit of the United States. The staff is preparing a paper called "Implications of U.S. External Current Account Deficits for the Volume of International Liquidity." It is planned to be issued in June and could serve as a background document for the discussion on SDR allocations on August 30 mentioned above.

Since the review of the SDR valuation basket has to be completed by January 1, 1986, the staff is preparing an initial paper, which has been tentatively scheduled for discussion in the Board on June 28. In this connection, the staff will explore further the issue of representative rates for the currencies included in the SDR valuation basket.

When we previously considered the work program in November 1984, there was a recognition of the desirability of an in-depth assessment of the role of the SDR in the international monetary system, e.g., of such issues as whether and how the SDR can contribute to international monetary stability and whether SDR allocations can improve the quality of international reserves. It was felt that, after the April meetings of the Interim and Development Committees, a work program should be prepared on these issues. Several subjects were proposed for inclusion in such a work program, e.g., the role and impact of SDR allocations in a multireserve currency system, improvements in the quality and usability of the SDR, and the use of the SDR by central banks in exchange rate intervention. Accordingly, the staff intends to put forward a program of studies on the SDR for informal discussion by the Executive Directors on June 26. In the process of intellectual exploration that would then be initiated, I would very much look forward to substantive individual contributions by members of the Executive Board. It is possible that one or more of the studies to be included in this program could be ready for discussion by the Executive Directors in the latter part of the current work program.

6. Operational matters

The Executive Board will consider the staff paper entitled "Review of the Fund's Income Position for Financial Years 1985 and 1986" on June 5; a supplement to the staff paper will be issued that will include an updating of information on the Fund's income position and staff recommendations. On the agenda of the same Board meeting will also be staff papers on "Special Charges on Overdue Financial Obligations to the Fund," "Factors Relating to Fund Reserves and Burden Sharing," and on "Financial Remedies in Connection with Overdue Financial Obligations - Legal Aspects." The papers "Publicity upon Declaration of Ineligibility" (SM/85/12) and "Overdue Financial Obligations to the Fund - Six-Monthly Report" (EBS/85/73) will serve as background documents for the discussion.

In July, it is planned to issue a paper providing an annual review of the supplementary financing facility subsidy account and recommendations for proposed subsidy payments for the year ending on June 30, 1985. A paper dealing with the technical question of cessation of transfers to the SFF subsidy account and the investment of balances retained in the special disbursement account is expected to be issued shortly. These two papers could probably be considered by the Board on a lapse of time basis.

The third six-monthly report on overdue financial obligations to the Fund is expected to be issued in September. Complaints in accordance with Rules K-1 and S-1 for members with overdue financial obligations in the General Resources Account and the SDR Department and notices with respect to overdue obligations to the Trust Fund will be submitted to the Executive Board as the need arises.

The designation plans and the operational budgets for the July-August and September-November 1985 quarters are tentatively scheduled for consideration on June 12 and September 13, respectively.

7. Area departments' work program

It is expected that in the period up to the 1985 Annual Meetings, the Executive Board will need to consider over 70 staff reports on consultations under Article IV and nearly 40 reports concerning the use of resources, of which about half would be for reviews under existing arrangements and half on requests for new arrangements; nearly two thirds of the new requests are from members that will have recently completed an arrangement with the Fund. The number of papers on use of Fund resources that could be brought to the agenda during this period, particularly involving requests for new arrangements, will depend of course on the progress of discussions with the authorities in member countries. Some requests for drawings under the special facilities are also anticipated during this period.

8. Annual Report

As usual, drafts of the various chapters of the Annual Report will be circulated to the Committee of the Whole of Executive Directors during June for consideration by the Committee in the last week of June and in July, by the end of which month Executive Board approval would have to be completed. In accordance with the procedures followed and agreed last year, Chapter 3 in draft form will be issued to the Committee of the Whole in the last week of June to be considered on a lapse of time basis. The tentative timetable for consideration of drafts of the other two chapters by the Committee of the Whole is as follows: start of consideration by the Committee of the Whole Chapter 2--June 26 (second reading July 12); Chapter 1--July 3 (second reading July 19).

The printed version of the report should be available in the second week of September; the report is scheduled to be released on Tuesday, September 24.

9. Staff studies

Among the studies requested by Executive Directors, the following three have been issued in recent weeks:

(i) "The Effects of Fund-Supported Adjustment Programs on Economic Growth: A Survey of the Empirical Literature" (SM/85/96, 4/4/85);

(ii) "The Global Effects of Fund-Supported Adjustment Programs" (SM/85/97, 4/4/85); and

(iii) "Fund-Supported Programs, Fiscal Policy, and the Distribution of Income" (SM/85/113, 4/25/85).

Since Executive Directors have had an opportunity to examine these three studies, they are invited to indicate whether, and in what sequence and format (such as seminar discussions) they may wish to consider these papers prior to their possible publication and, if so, dates for discussing them before the informal recess could be suggested and agreed.

The following two studies are expected to be issued in June, and Executive Directors are invited to indicate whether seminar discussions on them should be scheduled:

(iv) "The Design of Adjustment Programs in Planned Economies" will respond to requests by Executive Directors for further work on the design of performance criteria in programs with these members. It will cover the issues of ensuring effective adjustment in programs with planned economies, the means of monitoring progress that can be and have been used, and how uniformity of treatment with other members can be preserved.

(v) "Inflation and the Fiscal Deficit" examines the effects of inflation on the magnitude of fiscal deficits as conventionally defined and as measured in Fund programs. The analysis concentrates on the diverse effects that may result from different types of debt instruments. The problems of using measures of fiscal deficits distorted by the effects of inflation are analyzed, and alternative ways of defining fiscal deficits in inflationary conditions are discussed.

Work is in progress on two more staff studies that have had to be delayed owing to the press of other work:

(vi) "Theoretical Aspects of the Design of Fund-Supported Adjustment Programs" will describe and analyze the basic economic relationships relevant to the construction, monitoring, and operation of adjustment programs. The economic theory underlying financial programs was explored in a number of Fund studies some two to three decades ago. Meanwhile, financial programming in the Fund has continued to adapt itself to changing circumstances with respect to institutional evolution, theoretical advances, and exchange rate arrangements. In this paper, it is intended to take another look at the theoretical structure on which present adjustment programs have generally been based. It is hoped to issue this paper by the end of September.

(vii) "Social Expenditure of the Group of Seven Countries" will examine the potential impact of the aging of the population on the demand for social expenditures by the governments of the seven major industrial countries. Principal factors influencing the growth of public expenditure on health, pensions, education, unemployment compensation, and other forms of social expenditures will be studied and quantitative estimates made of the trends of these expenditures relative to GDP. The paper will also review some of the key policy issues that are likely to be addressed in this sector in the context of fiscal pressures arising from the aging of the population. It is expected to be issued next fall.

10. Other matters

At the appropriate time, we will consider the provisional agendas for the next meetings of the Interim and Development Committees, the latter in coordination with the World Bank.

At the discussion of trade policy issues and developments in March, Directors supported, in principle, the staff suggestion for separate information notes on major trade policy decisions. The staff is in informal contact with the GATT Secretariat on this matter. It is planned to prepare a brief paper for the information of the Executive Board describing criteria for the scope and content of the proposed information notes; it is planned to issue it in July.

"The Annual Report on Technical Assistance Programs" is planned to be issued in the first part of June.

Two papers for the information of Executive Directors reviewing developments in international banking activity are planned to be issued in the coming period. The first of these papers, covering 1984, should become available in the first part of June and the second, covering the first quarter of 1985, in July.

Executive Directors had suggested in connection with the request for additional budget appropriations for mainframe computing services that the Fund undertake a joint study with the World Bank on ways of improving the collection, storage, and processing of data required by both institutions and having the objective of generating savings for all concerned, viz., member countries, the Fund, and the Bank. It is expected that preliminary discussions on the study will be initiated shortly with the World Bank; it is hoped that the study could be completed by the end of 1985.

A semiannual report entitled "Frequency of Article IV Consultations" will be issued in September for the information of Executive Directors. It will provide a half-yearly review of experience in implementation of the system of agreed cycles for Article IV consultations with all members.

11. Administrative matters

A paper entitled "Staff Compensation - 1985 Adjustment" has been circulated and is scheduled for Executive Board consideration on May 31. I may also draw your attention to the progress report on the work of the Joint Bank/Fund Committee of Executive Directors on Staff Compensation circulated by Mr. de Maulde, in his capacity as Chairman of the Joint Committee, for the information of Executive Directors. As regards the job evaluation study, the Deputy Managing Director has recently stated that considerably more work is needed within the organization before the evaluation and grading process can be completed and its implications fully assessed in relation to a range of salary, personnel, and organizational applications.

A paper concerning "Accounting and Budgeting for Capital Assets," carried over from the previous work program, is now expected to be circulated to Executive Directors in time for consideration by the end of June.

A draft tentative schedule of Executive Board meetings, including proposed agenda dates has been circulated (Secretary's Circular No. 85/63). For major items, whenever appropriate, firm dates are indicated by an asterisk; in case it becomes necessary to change these, Executive Directors will be consulted. It may be noted that after we return from the informal recess, we will have about four and a half work weeks before the movement of the quorum from Washington, D.C., since this year the Annual Meetings will take place two weeks later than is customary.

Mr. Polak, referring first to various studies under way on improvements in the functioning of the international monetary system, considered that it would be worthwhile for the Board to discuss the report of the Group of Ten (G-10) in particular in preparation for the expected consideration of the report by the Interim Committee in Seoul. The Fund was well placed to consider how the proposals of the G-10, especially those on surveillance, might be put into practice, and the Board--with its broad composition--could usefully study the implications of those proposals for all Fund members.

The matter of enhanced surveillance had been raised under the heading "The Fund's catalytic role with respect to external finance," Mr. Polak observed. Fund policy on enhanced surveillance should, in his view, continue to be developed on a case-by-case basis. In that respect, forthcoming discussions on enhanced surveillance for Venezuela and Colombia should be helpful. Questions on use of Fund resources and enlarged access would no doubt be considered carefully by the Interim Committee and the Board should therefore allocate a significant amount of time, preferably in late August, in preparation for the Committee's deliberations.

Expressing concern that SDR matters had not been accorded high priority in the past two years, perhaps because of the Fund's preoccupation with rescue operations, Mr. Polak welcomed the inclusion in the work program of an in-depth assessment of the role of the SDR, together with a review of the basket. Although some members of the Fund had displayed coolness toward the SDR, particularly with respect to possible allocations, the Fund retained a responsibility to support an enhanced role for the asset in the international monetary system. In that respect, he noted that another composite currency, the European Currency Unit (ECU), was being promoted so successfully that the World Bank had denominated a recent loan in that asset. It was clear that, despite the nominal commitment of EC countries to making the SDR the principal reserve asset in the international monetary system, their promotion of the ECU would inevitably be at the expense of the SDR.

As to the section on staff studies, Mr. Polak remarked that the Board did not have sufficient time to consider each of the papers individually, whether in a seminar or a formal Board meeting. Papers (i), (ii), and (iii) were certainly deserving of publication, and, if their authors required further input, a staff seminar might be appropriate, rather than a seminar of the Board. However, papers (iv) and (v)--"The Design of Adjustment Programs in Planned Economies" and "Inflation and the Fiscal Deficit"--were so pertinent to the operations of the Fund that the Board should discuss them.

On another matter relating to the severe constraints on the allocation of Board time, Mr. Polak considered, it might be appropriate for Directors to make a systematic, self-policed effort to limit the time of interventions, particularly on country consultations or reviews. Perhaps there should even be some arrangement by which the number of speakers per country could be reduced.

Mr. Rye considered that the work program of the Board should concentrate on matters that were to be the subject of discussion at the forthcoming Interim Committee meetings. Accordingly, since improvements in the international monetary system would almost certainly be a key topic at Seoul, the Board should discuss the G-10 proposals, perhaps in July, allowing for the possibility of further deliberation after the informal recess. Although the report of the G-10 would not be available until after the meeting of Ministers in Tokyo on June 21, the staff should at least be able to prepare a paper commenting on the likely main recommendations of the report. It was his understanding that the

Group of Twenty-Four was also planning to produce a report on possible improvements in the international monetary system; that report should be given treatment similar to that accorded the G-10 report.

Another issue on which there was a strong possibility of substantive decisions at the Seoul meeting was that of enlarged access, Mr. Rye continued. The Board ought to discuss the question of access limits for 1986 and should comprehensively examine the various possible options before the Interim Committee meeting. As for the SDR, the deadlock within the Board on the question of an allocation was unlikely to be broken. If progress were to be made one way or the other, the Board would have to focus directly on the merits of the main arguments of those opposed to an SDR allocation. It was also important for the Board to return to the fundamental question of what an appropriate role for the SDR might be and to focus on the degree to which circumstances leading to the creation of the SDR in the late 1960s might have changed under the present multireserve currency system.

It was essential that the Board consider the issues raised in each of the staff studies outlined in section 9 of the Managing Director's statement, Mr. Rye added. If the Board were not to take the opportunity to consider such issues, there was a danger of overemphasis on the disparate operational elements of Fund policies at the expense of the global picture. Although seven separate seminars would be excessive, it would make sense to have a joint seminar discussion of the first three studies, which all related to the effect of Fund-supported adjustment programs. In that regard, it was unfortunate that the paper entitled "Theoretical Aspects of the Design of Fund-Supported Adjustment Programs" had been delayed until the end of September, since the subject was of the utmost importance to the Fund. As for the daunting list of country matters scheduled for discussion, his feeling was that self-policing by Directors rather than artificial limitations on the number of interventions was the only practical way of making the Board discussions more to the point.

Mr. Arias said that he broadly endorsed the work program. He noted the importance of including the question of access limits on the agenda of the October meeting of the Interim Committee. The subject was crucial to the Fund's future, and any guidelines established at the Interim Committee meeting would be particularly important for the Board in its deliberations.

Mr. Pérez stated that he was broadly in agreement with the work program and with the emphasis given to particular issues, and he could limit himself to a number of specific points. First, notwithstanding any suggestions that might be made by the G-10, it was important to ensure that the Fund--with its broader composition--should be the source of any major initiative on reform of the international monetary system. Second, a comprehensive update of the World Economic Outlook would be valuable, particularly if it contained a clearly written summary and an explicit comparison of the impact of different sets of assumptions on economic projections. Third, the inclusion in the work program of issues related to the Fund's catalytic role with respect to international finance was of first order importance. At a time when other financial institutions had been unable to provide leadership in responding to the imminent international financial crisis, the Fund had played a crucial role in organizing programs for restructuring sovereign debt. However, he noted with concern that a growing number of small and medium-sized banks were reluctant to make new resources available in the context of Fund programs. The moment had passed when central banks were justified in applying pressure on private commercial banks to release the financial resources that were essential to the stability of the international monetary system as a whole. The Fund therefore had to reassess its catalytic role and look for new ways of assisting member countries to mobilize external financial resources.

Turning to the question of the use of Fund resources, Mr. Pérez said, he was strongly in favor of, at least, the maintenance of the present access limits. They were essential if the Fund were to support the adjustment efforts of member countries to the same extent as in the past. Another important matter for discussion was the role of the SDR and the importance of a fresh allocation to supplement global liquidity. The staff was preparing a paper on the implications of the U.S. external current account deficit for the volume of international liquidity. Besides demonstrating that dollars should not be the only source of such liquidity, the paper was likely to show that the U.S. external current account deficits resulted in an uneven distribution of international liquidity, thus demonstrating the need for a new allocation of SDRs in the current basic period.

Mr. Jaafar, taking in order the items in the work program, commented that the value of the forthcoming G-10 report would be considerably enhanced if it were to pay attention to ways of harmonizing the domestic policies of those countries that exerted considerable influence on the international monetary system. In that repect, a greater effort should be made to improve the effectiveness of Fund surveillance. Bearing in mind that other reports--those of the G-24 and the Commonwealth Secretariat--should also be considered, the Fund ought nevertheless to come up with its own proposals to improve the workings of the international monetary system.

On the World Economic Outlook, Mr. Jaafar considered the fall in the U.S. growth rate disturbing. The upturn in the world economy had not been followed by any significant improvement in the terms of trade for primary commodity exporting countries, and a slower rate of growth in the United States could further dampen prospects of many LDCs. The staff should not only review the changes that had occurred in the policies of major industrial countries since the previous Interim Committee meeting but also consider whether the Fund ought to recommend that some major countries, such as Germany and Japan, take up the slack in U.S. growth by implementing somewhat more reflationary policies.

The Fund had played a valuable catalytic role in putting together financial packages for Mexico, Brazil, and Argentina, Mr. Jaafar remarked. In those cases, the relevant program had been recommended to the Board only when the "critical mass" of financing commitments by commercial banks had been reached. He strongly supported the continuation of such an approach; however, he was in favor of a general application of the so-called enhanced surveillance arrangements, even if at the request of national authorities, unless warranted by very special circumstances. If there was a case for enhanced surveillance at all, it was better suited to the major industrial countries. Accordingly, it would be better to follow normal policy in considering the request of the Colombian authorities to link disbursement of new money by commercial banks with performance criteria under IMF monitoring; the request should be dealt with in a program designed by the Fund and using Fund resources.

The time was ripe to rethink the policy on enlarged access to Fund resources and on access limits, including those for the special facilities, Mr. Jaafar considered. Since that policy would be an important subject at the forthcoming Interim Committee meeting at Seoul, the Board should conclude its own review of the matter by the second half of September. The plan to use resources from the Trust Fund to provide speedy assistance to low-income countries was most appropriate, and he hoped its passage through the Executive Board and the Interim Committee would not meet with much resistance.

The SDR, Mr. Jaafar felt, had already been the subject of exhaustive Board discussions on other occasions, and a short paper would probably suffice for the August 30 discussion to address the question of SDR allocations. Yet another in-depth assessment of the issue would only distract the Board from its proper objective of promoting the SDR as the principal reserve asset in the international monetary system.

On another matter, Mr. Jaafar observed that the dissemination of information to the Executive Board in certain circumstances was not entirely satisfactory. In cases of special interest--for example, Brazil, Argentina, and the Philippines--it might be better if the Executive Board were informed earlier of progress in negotiations between the Fund and the member government. If the staff were on occasion required to negotiate a new program, the Executive Board should be informed and its advice sought. The information that Executive Directors received through the current procedure of informal meetings and announcements was no different from that available in the newspapers, a fact that could be embarrassing for Directors when their authorities requested more detailed information than was available in the press.

Mr. Finaish noted that although the forthcoming G-10 report would be a useful contribution to the general debate on improvements in the international monetary system, the Fund should conduct its own thorough examination of the issues and should not simply react to the G-10 proposals. Given its institutional objectives, the Fund was the natural forum for discussions on possible reforms of the system, and it was important to change the growing perception that the Fund had been largely absent from recent discussions on the matter. For instance, The Times of London, in a recent editorial, had doubted that the Fund was being sufficiently active in researching ways of improving the present currency system. In that editorial, the following points had been made:

> The question remains as to what purpose currency "surveillance" serves with respect to the major economies. At present, it is a farce. Even if the reports were published, they would be no more than a trivial source of embarrassment to those criticized. A more important role for the IMF here is to get back in the forefront of research and exploration into ways of improving our present currency system. For there is just a whisper of change in the air; yet the discussions are circulating outside the institution with historic responsibility.

Enhanced surveillance, in its different variants, constituted a significant new development in the Fund's surveillance activities and in its relationship with commercial banks, Mr. Finaish remarked. It would be useful in the circumstances if the staff were to prepare a paper on the many issues raised by Directors in connection with the policy on enhanced surveillance. Although flexibility was needed in determining the merits of each individual case, there still had to be adequate clarity in general policy to ensure symmetry of treatment of members and make certain that the Fund--particularly in its relations with commercial banks--did not lose sight of the longer-term implications of the steps that it was taking.

Supporting the proposed program of studies on the future of the SDR, Mr. Finaish made it clear that, if the work on the program of studies were not completed by the time of the next discussion of SDR allocation, which was to be expected given the scope of the exercise, that should not be taken as an argument for further postponing a decision on an allocation in the current basic period. At any rate, the program of studies would deal with certain essentially longer-term issues relating to the future role of the SDR rather than with considerations bearing on an allocation at present. One of the most important subjects to be examined in the program of studies was whether the evolution of a multireserve currency system had, in any significant way, altered the role of, or need for, a reserve asset such as the SDR. The notion that major changes had occurred in the international monetary system had been used as argument by some Fund members to cast doubt on the need for an SDR allocation. A central question to be addressed was how, in the present multicurrency reserve system, an increased role for an internationally managed reserve asset, such as the SDR, could still contribute to greater stability in the creation of international liquidity and to an improvement in the quality of international reserves. It would be helpful if a paper could be made available on the subject by end-August as background for the next discussion on an SDR allocation.

Over seventy reports on Article IV consultations and about forty reports on the use of Fund resources were expected to be discussed by the Board before the Annual Meeting, Mr. Finaish noted. In the next report on the frequency of Article IV consultations, it would be useful if an indication could be provided of whether any reduction in the frequency of consultations had taken place or was expected to take place in light of the suggestions by many Directors in the most recent Board meeting on surveillance that the Board's time would be more appropriately allocated by having longer consultation cycles for a larger number of countries.

The staff studies outlined in the Chairman's statement, given their somewhat technical nature, should be viewed primarily as background papers that could be useful to the Board in its consideration of country and policy matters rather than as material that itself should be the subject of Board discussions, Mr. Finaish concluded. Some Directors might attach importance to discussing specific papers; in that case, seminar discussions would be preferable, although care should be taken to leave the Board with sufficient time for discussing urgent country and policy matters.

Mr. Nimatallah, indicating his general approval of the work program until the 1985 Annual Meetings, said that he looked forward to the July Board discussion of the forthcoming G-10 report on improvements in the international monetary system. Since the G-10 might not have studied SDR matters in great detail, the Chairman's proposal for an in-depth assessment of the role of the SDR in the international monetary system was a useful initiative, and June 26 would be a suitable date on which to discuss the program of studies on the SDR. As for enhanced surveillance, while Colombia was an acceptable special case, the Fund should be careful not to adopt a new role for itself without careful assessment of the implications of such a move. The staff should prepare a paper on possible implications of any shift in the conceptualization of the Fund's responsibilities. With regard to the heavy load of country items on the Board's agenda, he agreed with Mr. Polak that interventions could usefully be shortened, but only by some sort of self-imposed time limit; he was not certain that a limit on the number of speakers on a given item was a practical approach. On administrative matters, there was room for improvement in the procedures governing the formulation of budgets, and, accordingly, the paper on accounting and budgeting for capital assets was welcome. Finally, he joined those who felt that the staff studies outlined in the Chairman's statement could best be discussed in a seminar.

Mr. Fujino said that he would limit himself to five specific comments on the work program. First, the Executive Board would be well advised to delay its consideration of the G-10 report on improvements in the functioning of the international monetary system until after the Interim Committee had provided preliminary views and guidance on the issues contained therein. Second, it was important that the Board should proceed to a discussion of general policy and guidelines on the catalytic role of the Fund with respect to external finance, so that the role and the responsibility of the Fund in enhanced surveillance could be better and more thoroughly defined. Third, the Executive Board should focus in advance of the Seoul meetings on the policy relating to enlarged access, in order that a convergence of views might be obtained before the Annual Meeting. Fourth, he could endorse the Chairman's proposal that only a short paper on SDR allocations was necessary for the August 30 discussion. Finally, given the distinctive roles of the Fund and GATT, he reiterated his reservation on whether the Fund ought to issue information notes on purely trade matters. If such information notes could serve any important purpose in the Fund, they would have to be limited to the analysis of the implications of trade matters for the balance of payments, foreign exchange policy, and structural adjustment.

Mr. Alfidja, dealing first with the question of improvement in the functioning of the international monetary system, said that he hoped that the background paper prepared by the Fund staff would contain a thorough appraisal of the system. All Fund members, especially the large industrial countries, should cooperate toward reforming and strengthening the present international monetary system in which it could not be doubted that the SDR would play a very important role. It was regrettable in that respect that certain Fund members had a de facto veto over the fresh allocation of SDRs and that they appeared indifferent to the slow death of the asset.

On the heavy meeting schedule of the Executive Board, Mr. Alfidja agreed that it was important to find ways of reducing the proportion of time spent in the Board on country discussions. In working toward that objective, attention should be paid to the problems faced by Directors of multicountry constituencies, and efforts should be made to spread country missions more evenly so as to lessen the risk of a crowded Board schedule. Alternatively, greater flexibility should be employed in applying the rules governing the timing of Board consideration of items on the agenda.

Mr. Dallara, accepting the general content of the work program, expressed the hope that as many items as possible could be scheduled before the Board recess. He agreed with Mr. Alfidja that all members would have to work together to strengthen the functioning of the international monetary system. In that respect, the G-10 report was an important document that should be ready for preliminary discussion by the Interim Committee in Seoul. The Interim Committee discussion of the report was expected to be only preliminary, and it would be premature for the Executive Board to hold a prior meeting to discuss the report. Besides, it was unclear how and when the report would be transmitted from the Ministers and Governors of the G-10 to the Interim Committee. On the other hand, if the most were to be made of the guidance that the Interim Committee would inevitably provide on the matters contained in the report, the Board would be well advised to look in depth at the relevant issues during the months following the Seoul meetings; it was only a question of timing.

On the Fund's catalytic role, Mr. Dallara commented, the development of various forms of enhanced surveillance as part of the evolution of the Fund's traditional role in temporary financing of current account deficits was appropriate in the context of world economic developments. In some cases, enhanced surveillance had been connected with multiyear rescheduling arrangements, both private and official; in others, it had involved new commercial bank financing, as in the case of Colombia. In general, the United States believed that enhanced surveillance could play an important role in the Fund's efforts to fulfill its responsibilities, although its evolution should take place on a cautious, considered basis. Fund policies on enhanced surveillance should appropriately continue to be adopted in the light of experience, and a definitive set of policies at the present juncture would not be particularly useful. A balance must be struck between the needs of particular members and the broader policies and responsibilities of the Fund in the effort to develop a broader framework for agreement on enhanced surveillance. Especially where official creditors were involved, it was important that any enhanced surveillance arrangement be implemented within the context of a comprehensive adjustment program.

The annual review of developments in the capital markets might help to clarify what the catalytic role of the Fund could or should be in the future, Mr. Dallara remarked. However, while the paper for that review would provide information on the global external debt situation, it should probably not serve as the basis for a detailed discussion of enhanced surveillance. On the other hand, the paper could appropriately generate an analysis of the evolution of syndication arrangements and a discussion of what that analysis might imply for the Fund's relationship with commercial banks.

The Board should review the Fund's policy on enlarged access in advance of the Interim Committee Meeting, Mr. Dallara observed. The use of resources from the Special Disbursement Account arising from the termination of the Trust Fund was also an important issue and might require a discussion beyond that scheduled for September 4 before a definitive report on the issue could be transmitted to the Interim Committee.

On SDR matters, Mr. Dallara noted, the question of allocation had been exhaustively discussed, and the U.S. position on the question was clear. The Interim Committee had called for a re-examination of the issue, and he was of course prepared to follow the guidance of that Committee, although it was unclear how further discussions would be helpful in the absence of a change in individual members' positions. Perhaps it was time for a more fundamental review of the role of the SDR in the present international monetary system. In that regard, the United States did not regard the discussion on the review of the SDR valuation basket on June 28 as definitive.

As to the scheduled June 5 discussion on overdue payments, Mr. Dallara wondered whether it might not be useful to focus on one day on papers relating to the special charges, financial remedies in connection with overdue obligations, and publicity, and on the second day on factors relating to reserves and on burden sharing. It would be useful to have an updated Table 6 in Attachment I to EBS/85/73 (3/27/85) and an update of Attachment III to the same paper, as background for those discussions.

Although the Board was short of time, Mr. Dallara considered, there ought to be a Board meeting rather than a seminar to discuss the two staff papers entitled "The Effects of Fund-Supported Adjustment Programs on Economic Growth: A Survey of the Empirical Literature" and "The Global Effects of Fund-Supported Adjustment Programs," preferably before the Board recess. The papers on the design of adjustment programs in planned economies, on theoretical aspects of Fund-supported adjustment programs, and on social expenditure of the G-7 countries were also sound candidates for seminar discussion.

On other matters, Mr. Dallara welcomed the intention to develop information notes; however, their release should be determined not by rigid criteria but when the staff and management judged that an important event in trade policy had taken place that might have broader implications and might thus be the basis for a note and discussion. It was dangerous, however, to regard an isolated event as the basis of any supplemental consultation. Finally, it would be interesting to hear different views on the appropriate time for presenting data on merit increases for Fund staff. Although the U.S. authorities felt that it would be best if the merit increase and general salary increase data could be presented simultaneously, the staff had indicated that the timing of the Hay survey data made such a presentation difficult. The merit exercise would receive greater attention if it were removed from the budget documentation and issued instead along with the documentation relating to the general salary review.

Mr. Nimatallah asked Mr. Dallara for elaboration of his views on the most appropriate timing for Board discussion of the G-10 Deputies' report.

Mr. Dallara replied that there were many questions that remained unanswered within the G-10 itself, including the nature of the report and the timing of its transmittal by Ministers to the Interim Committee. Especially as the discussion of the report by the Interim Committee was likely to be preliminary, it would be premature for the Board to discuss such complicated and far-reaching issues before the Seoul meetings; it would be more appropriate for the Board to begin an in-depth look at the issues once it had been given certain guidelines by the Interim Committee.

Mr. Fujino agreed that it was much too soon to know what form the report would take and the timing of any further discussions. It was expected that, after the Tokyo meeting of the G-10, the report would be transmitted to the Chairman of the Interim Committee for preliminary discussion by that Committee in Seoul.

Mr. Polak asked whether the Interim Committee had ever considered a matter that had not been prepared first by the Executive Board.

The Secretary replied that, in practice, the Executive Board took responsibility for preparing the work of the Interim Committee.

Mr. Wicks stated that it was surely up to the Interim Committee itself, and to its Chairman, to decide how the work of the Committee should be prepared. Was there a legal requirement that everything that went to the Interim Committee had first to be dealt with by the Executive Board?

It was too early for the Board to take a view on how the matter should be handled, Mr. Wicks added. It was not his intention to deny the Board an opportunity to discuss the report. However, the correct procedure would depend on what the G-10 members decided when they held their discussions in June and on what the Chairman of the Interim Committee decided he would do with that document.

Mr. Nebbia said that, as he understood current procedure, it was up to the Board to decide what would go on the agenda of the Interim Committee; any change in that procedure should be based on an Executive Board discussion. Surely the Chairman of the Interim Committee could not have total discretion over such an important matter. Moreover, the G-24 was also preparing a paper on improvement in the international monetary system, and the documents of the two groups should be accorded similar treatment.

Mr. Goos agreed with Mr. Dallara, Mr. Fujino, and Mr. Wicks that it was not up to the Executive Board to decide what should be done with the report of the G-10; it was up to the G-10 Ministers to decide how they wished to present their report to the international community.

The Chairman remarked that neither the document nor its mode of transmittal had yet been finalized. The Board would therefore be well advised to wait until at least the end of June before choosing a precise date on which to examine the report.

The Deputy General Counsel observed that one of the rules of procedure of the Interim Committee stated: "A provisional agenda to be adopted by the Committee shall be prepared for each meeting by the Chairman after consulting the members of the Committee and the Managing Director of the Fund, and shall be distributed as far as in advance of the meeting as possible. Any member of the Committee may propose the addition of an item to the provisional agenda." The agenda was therefore provisional until the morning on which the Interim Committee met and, in fact, adopted it. Of course, as a matter of tradition and practice, matters to be discussed by the Interim Committee on previous occasions had been prepared for the meetings by the Executive Board.

Mr. Rye pointed out that, if the report of the G-10 were sent directly from the G-10 to the Interim Committee, those who were not members of the G-10 would find it difficult to brief their Ministers on the reactions of others to the proposals contained therein.

Mr. Sengupta agreed that it would be difficult to say anything about the report until after the G-10 had met. However, the indication of the Deputy General Counsel regarding the correct procedure for deciding the agenda of the Interim Committee made it clear that the Executive Board, as a matter of tradition, could consider in what form the G-10 report was to be discussed at the Interim Committee. He saw three options. The first was that the G-10 report was to be sent directly to the Interim Committee; in that case, he presumed the G-24 report would be accorded a similar status once it had been transmitted by the Chairman of the G-24 to the Chairman of the Interim Committee. The second option would be for the Executive Board to discuss the two reports and for the Managing Director to send annotated copies of them to the Interim Committee. In that case, the G-24 and G-10 papers could be considered either together or consecutively. A third option was that the Fund staff might produce a separate paper on the different issues contained in the reports or even separate papers on each the four different subjects, taking into account the G-10 and G-24 papers. Since the Board had not given consideration to either of the last two options, the real choice was between sending the papers directly to the Interim Committee and sending them only after the Board had first made its comments.

The Chairman suggested that constraints on the Board's time would most likely result in the adoption of the first alternative, especially if the G-24 paper was to be treated in a symmetrical fashion. Once the Ministers at the Interim Committee had examined the reports, they would be able to give guidance as to how the Executive Board should proceed with an in-depth study. At the present stage, it was difficult to reach any definitive conclusions.

Mr. Joyce said that he was in sympathy with those who were not members of the G-10 or the G-24 and who would therefore find themselves in Seoul without having had a full opportunity to consider and discuss the reports. Perhaps the Fund staff therefore should prepare a purely informational document for Ministers at Seoul, outlining what was contained in the reports and remarking on the extent to which they agreed or differed. The staff paper would not necessarily have to be discussed in the Board; nor should it interfere with the view that G-10 Ministers wanted to make their disposition known initially to the Chairman of the Interim Committee. Some sort of annotated agenda by which Ministers, arriving in Seoul, could discuss the two reports would increase the probability of having a more focused discussion.

Mr. Nimatallah considered that the issue at hand depended to a great extent on expectations of the G-10 regarding the possible contribution by the Board to the report. It was not the intention of the G-10 that the Fund should rubber-stamp its reports. Accordingly, there was perhaps a case for delaying the in-depth discussion of the G-10 and G-24 reports until after the Annual Meetings. However, from a procedural perspective, since the Chairman of the Interim Committee was supposed to consult with the Managing Director, it might be appropriate for the Chairman to prepare a brief report that could be transmitted to members of the Executive Board and that would help avoid surprises at the Interim Committee meeting. After the Annual Meetings, the Executive Board could consider the reports in greater depth together with material prepared by the staff on matters where the Fund was able to make a greater contribution.

Mr. Dallara assured Mr. Nimatallah that it was not the intention of his authorities, nor of others in the Group of Ten, to seek a rubber stamp of what was being discussed in the G-10 report. If the intention were to obtain automatic approval, then it would probably be to the advantage of the G-10 Ministers to rush the matter through the Board, which was the decision-making body of the Fund. Again, the discussion at Seoul was intended to be very preliminary. If the intention were to have a detailed in-depth discussion at Seoul, then the whole question of Board involvement would have to be seen in a different light.

Mr. Mtei, endorsing the proposed work program, expressed the hope that studies on the adequacy of the supply of reserves, the pattern of their distribution, and the functioning of the international monetary system would go far beyond recommending piecemeal improvements and would address the fundamental problems underlying the present system. The Fund should get involved in depth at the earliest opportunity in the G-10 study so that the problems of developing countries could be fully addressed.

The World Economic Outlook, Mr. Mtei felt, was an important source of information about prospects for the world economy. Although the autumn update would be in the form of a general survey, the crisis in sub-Saharan Africa should be given particular attention, perhaps in a supplementary note exploring the present situation, the progress made thus far, the prospects for recovery, and possible steps to enhance current efforts. It was unfortunate that the spring World Economic Outlook had not given sufficient attention to those issues.

The increasing assistance being provided by the Fund to some of its members in mobilizing external resources was welcome, Mr. Mtei said. The enhanced surveillance agreements with Venezuela, Ecuador, and Colombia were indications that the Fund's catalytic role had taken on a new dimension. A staff paper discussing those developments would be of great value, especially if the Board were to develop general guidelines for enhanced surveillance. In view of growing reluctance within the Fund to provide resources in support of structural adjustment programs, it would be interesting to see how the staff envisaged the Fund's catalytic role in helping the low-income members, which could not have recourse to financial markets, and in extending multiyear rescheduling arrangements to them.

Although the question of SDR allocations remained unresolved, it was to be hoped that the proposed program of studies on the role of the SDR in the international monetary system would make a contribution toward achieving a consensus, Mr. Mtei commented. Low-income countries would also benefit from early agreement on what should be done with resources resulting from repayment of loans made under the Trust Fund. Welcoming the forthcoming paper on that issue, he would prefer to hold a seminar discussion in which Directors could consider the other staff studies outlined in the work program.

Mr. Sengupta asked whether the G-10 study would, as previously indicated, contain an analysis of the Fund's role, particularly the so-called catalytic role that the Fund had begun to play in mobilizing balance of payments finance or in imposing discipline and conducting macroeconomic monitoring. The Fund had been involved mainly in arranging multiyear debt rescheduling and Paris Club-type arrangements; the Colombian case had, however, been different, in that it had represented a stand-by arrangement without Fund money, and it was not clear that a balance of payments need had been established. It was important to examine the different implications both of enhanced surveillance--which was a sort of repeat Article IV consultation with respect to debt rescheduling--and of the new Colombian type of arrangement. A paper on the subject should be included on the work program because the Fund was entering areas where the consequences of its actions were not clear.

On the use of Fund resources and the SDR, Mr. Sengupta observed, if there were no possibility of a review of the enlarged access policy and limits, the whole subject should be accorded lower priority. The Fund had a responsibility to promote the SDR, notwithstanding that a number of countries were "cool" toward the asset. Even if the Interim Committee were not to reach a significant agreement on the allocation of SDRs, the Fund could not afford to relinquish its obligations to discuss such issues. On operational matters, there was merit in Mr. Dallara's suggestion that the June 5 meeting be split into two meetings.

In the light of the pressures on the Board, Mr. Sengupta asked whether, for some countries, it would be possible to dispense with even an 18-month consultation. Could it be extended to two or even three years, unless there were an emergency or special need? In general, some countries could come to the Board once every three years and others once a year. There would have to be a set of criteria defined in the Board. However, once that issue had been resolved, the heavy burden on the Board of discussing all the countries might be reduced. There was no other way of reducing the burden on the Board, since even a time limit on the intervention of each Executive Director would not result in significant economy.

He was curious about the value of discussing the staff studies in a seminar, Mr. Sengupta continued. If the purpose were to provide official views to the staff, the paper should not be presented in its final form, so that the discussion at the seminar could be reflected in the reformulation of the paper. However, that had not been the experience of the last World Economic Outlook seminar. Since the papers had been presented in practically their final form, only marginal changes had been introduced. If, on the other hand, the purpose were to improve the staff papers through general discussions, a staff seminar might be more useful. The value of an Executive Board seminar was that members of the Board could express opinions on the merits and analytical problems of the paper without necessarily reflecting the position of their authorities. The value of such a discussion would be lost unless it were appended in summary form to the paper. The three papers already submitted were worthwhile, especially that on the theoretical aspects of the design of Fund-supported adjustment programs. There was some question, however, as to the relevance of the seventh paper, "Social Expenditure of the Group of Seven Countries," for the Fund as a whole. Although questions of expenditure management were clearly within the competence of the Fund, the subject matter of the paper nevertheless contained a substantial welfare aspect, which suggested that the Fund might not be the most appropriate forum.

Mr. Nimatallah said that it was important to consider carefully the advantages of splitting the June 5 discussion into two parts. However, it might be inconvenient if the two parts were separated by several days.

Mr. Joyce wondered whether it would be possible to split the discussions but hold them both on the same day.

Mr. Nimatallah agreed that Directors should make two interventions: the first should be on the Fund's income position and reserves, burden sharing, and publicity, all of which were closely interrelated; the second should be on special charges and financial remedies.

Mr. Wicks considered that a distinction should perhaps be made between operational and philosophical issues. On the operational issues, interventions would probably be fairly concise; however, on burden sharing, for example, interventions would be more general. There was a risk that the philosophical issues such as burden sharing might be given inadequate treatment vis-à-vis those operational issues on which the Board really had to take decisions. Accordingly, it might make more sense to discuss burden sharing in one day, together with special charges, and to consider the more operational issues on a separate and prior occasion.

Mr. Sengupta remarked that the distinction between operational and philosophical issues was artificial. Decisions on operational issues--particularly regarding charges--were dependent not only upon questions about reserves but also upon the principle of burden sharing. It would be best therefore to discuss all items together in one intervention. If burden-sharing, for example, were discussed after all the operational matters had been settled, the discussion really would be philosophical.

The Chairman observed that Directors were apparently agreed to discuss all the issues in question on June 5, perhaps with the guidance of a short note that he would produce. Special charges would probably have to the considered in more depth at a later date. Directors would have to decide for themselves the weight that they wished to attach in their interventions to the issue of burden sharing.

The Executive Directors agreed to continue their discussion of the work program at 3:00 p.m.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/80 (5/24/85) and EBM/85/81 (5/29/85).

4. SUSPENSION OF TRANSFERS TO SFF SUBSIDY ACCOUNT AND INVESTMENT OF BALANCES RETAINED IN THE SPECIAL DISBURSEMENT ACCOUNT

Suspension of Transfers to the SFF Subsidy Account and Retransfer of Surplus

In accordance with Section 4(b) of the Instrument establishing the Supplementary Financing Facility Subsidy Account (Decision No. 6683-(80/185) G/TR, 12/17/80), transfers from the Special Disbursement Account to the SFF Subsidy Account shall be suspended as soon as arrangements can be made for the investment of resources retained in the Special Disbursement Account. Any resources of the SFF Subsidy Account above the amounts necessary to meet its future liabilities shall be promptly retransferred to the Special Disbursement Account as soon after the date of this decision as possible and as they may be received in the future. (EBS/85/127, 5/14/85; and Sup. 1, 5/24/85)

Decision No. 7989-(85/81) SBS, adopted
May 28, 1985

Special Disbursement Account - Investment

Pending their use, the Managing Director shall place in investments, denominated in SDRs, with the Bank for International Settlements, the currencies received by the Special Disbursement Account as a result of the termination of the Trust Fund, unless the Managing Director considers that the terms offered by the BIS on an intended deposit denominated in SDRs are not sufficiently attractive. In that event, the Managing Director shall inform the Executive Board promptly and make other proposals to it for investment in SDR-denominated obligations in accordance with Article V, Section 12(h). (EBS/85/127, 5/14/85; and Sup. 1, 5/24/85)

Decision No. 7990-(85/81), adopted
May 28, 1985

5. EXCHANGE RATE POLICIES IN PROGRAMS SUPPORTED BY THE FUND - PUBLICATION

The Executive Board approves the proposed publication, in the Occasional Papers series, of the Fund paper relating to the formulation of exchange rate policies in programs supported by the Fund (EBS/84/232, 11/16/84; and Cor. 1, 12/3/84), as set forth in EBD/85/124 (5/14/85), and Supplement 1 (5/20/85).

Adopted May 24, 1985

6. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 84/127 and 84/128 are approved. (EBD/85/134, 5/21/85)

Adopted May 28, 1985

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/85/136 (5/24/85) is approved.

APPROVED: March 11, 1986

LEO VAN HOUTVEN
Secretary