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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meetig 85/82

3:00 p.m., May 29, 1985

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

Executive Directors	Alternate Executive Directors
A. Alfidja	J.-C. Obame, Temporary
	D. C. Templeman, Temporary
	S. Kolb, Temporary
	X. Blandin
M. Finaish	
	M. Sugita
	B. Goos
	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	
P. Pérez	
J. J. Polak	J. de Beaufort Wijnholds
C. R. Rye	
G. Salehkhou	
A. K. Sengupta	A. S. Jayawardena
N. Wicks	T. A. Clark
S. Zecchini	
Zhang Z.	Wang E.

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

Also Present

Administration Department: J. G. Keyes. African Department: A. D. Ouattara, Director; G. Kalinga. Asian Department: Tun Thin, Director. European Department: L. A. Whittome, Counsellor and Director. Exchange and Trade Relations Department: C. D. Finch, Director; M. Guitián, Deputy Director; G. Belanger, E. H. Brau, G. G. Johnson, P. J. Quirk. External Relations Department: N. K. Humphreys, Chief Editor. Fiscal Affairs Department: V. Tanzi, Director; C. Y. Mansfield. Legal Department: J. G. Evans, Jr., Deputy General Counsel; J. M. Ogoola. 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; D. Berthet, J. E. Blalock, J. C. Corr, D. Gupta, D. V. Pritchett. Bureau of Language Services: A. J. Beith, Director. Bureau of Statistics: J. R. McKee. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. M. Hassan, J. Hospedales, G. E. L. Nguyen, G. W. K. Pickering, M. Z. M. Qureshi, T. Sirivedhin, M. A. Weitz, A. Vasudevan. Assistants to Executive Directors: J. R. N. Almeida, V. Govindarajan, Z. b. Ismail, A. K. Juusela, K. Murakami, J. Reddy, J. E. Rodríguez, A. A. Scholten, A. J. Tregilgas, E. L. Walker.

1. WORK PROGRAM

The Executive Directors continued from the previous meeting (EBM/85/81, 5/29/85) their consideration of the work program until the 1985 Annual Meetings.

Mr. Goos, commenting on the procedural matters raised by Mr. Polak, wondered whether the often lengthy and repetitive discussions on country items did not represent a serious misallocation of the Board's time. Interventions, particularly in Article IV consultations, should perhaps be restricted to an expression of agreement or disagreement with the staff's analysis, to points of dissent or to points not adequately addressed in the papers. Comments of emphasis should be kept as brief as possible. Such a streamlining of procedures might require a basic change in attitude by Board members, regarding the purpose of interventions. Generally, decisions to make only short interventions, or even to abstain from commenting at all, should be taken not as a sign of indifference to the problems of a particular country but rather as a sign of agreement with the staff report. Consideration might also be given to Mr. Finaish's proposal to reduce the frequency of Article IV consultations.

The efforts taken by management to strengthen the Fund's catalytic role in the context of debt rescheduling could be seen as a continuation of a long-standing process of adjusting Fund policies to the changing needs of member countries, Mr. Goos said. Nevertheless, because of the momentum that the process had acquired, the Board should give early consideration to the potential implications of enhanced surveillance procedures for the Fund as well as for its relations with member countries and commercial banks. While the forthcoming informal discussion on the enhanced surveillance procedure envisaged for Colombia would certainly be welcome in that respect, there was still a need for broad fundamental discussion of the subject aimed at developing some understandings on the appropriate policy course to be pursued in the future.

It was not clear, Mr. Goos continued, that the most suitable basis for such a discussion would be the staff's annual report on international capital markets. It might be better to have an entirely separate discussion on the basis of a separate paper, given the importance of the subject. It would be too late to discuss the question of enhanced surveillance after the Annual Meetings. The management of the Fund should refrain, before the conclusion of that discussion, from committing itself to any new arrangement in the absence of sufficient advance consultation with the Board.

The question of access limits should be placed on the agenda of the next Interim Committee meeting, Mr. Goos remarked.

Reiterating his position on the question of possible SDR allocations, Mr. Goos stated that a new extensive round of discussions in the Board should be opened only if new aspects of the question were to arise that would justify such an effort. The proposed studies on the role of the

SDR in the international monetary system were not a top priority. There was even the danger that unwarranted innovations in that area might conflict with overriding principles of the Articles of Agreement or even weaken the role of the SDR.

On the use of Fund resources, Mr. Goos expressed concern that nearly two thirds of new requests were coming from members that had recently completed a program with the Fund, implying an extraordinarily high rate of refinancing of outstanding Fund credit and raising once again the issue of prolonged use, revolving character, and the temporary nature of the Fund's resources. Management should cut back on refinancing whenever possible.

The most appealing of the staff studies for Board discussion were the fourth, the fifth, and the sixth, Mr. Goos concluded. All three had an immediate bearing on the Fund's operational policies.

Mr. Zecchini remarked that developments in enhanced surveillance might well determine whether the Fund would continue to be an institution mainly devoted to short-term and medium-term financing based on its own and borrowed resources, or whether it would play primarily a consulting role for private and official institutions engaged in sovereign lending. The second of these outcomes would have far-reaching implications for the re-establishment of normal relations between lenders and borrowers, the distribution of credit among borrowing countries, and the credibility of the Fund.

On the restoration of market conditions, Mr. Zecchini said, it was not clear whether the Fund's role of risk assessor would represent a net positive contribution; private lenders might have less incentive to improve their own credit rating system and to allocate their resources in a way consistent with their own assessments of risks. If, on the other hand, enhanced surveillance by the Fund were to remain an exception, the Board would need to develop a policy in order to determine which countries should and which should not benefit from it.

Concentrating the assessment of countries' policies in the hands of the Fund could lead to a situation in which access to the international capital markets was restricted to countries whose policies received high marks from the Fund, Mr. Zecchini continued. Changes in the Fund's views could have bandwagon effects that might induce wider fluctuations in credit availability than at present. Such a change could have an impact on the stability of the international monetary system. Moreover, the Fund would place its own credibility at risk by taking over the enhanced surveillance role on an extensive basis. The point was that the Fund should not enter such a new area of responsibility without a full consideration of its consequences of such action. The practice of enhanced surveillance was already under way, but its systemic implications had not yet received sufficient attention in the Board.

The work load of the Executive Board had been increasing steadily in recent years, Mr. Zecchini considered; a decline in the quality of the Board's work and deliberations on the most important issues was a serious possibility. It was time to concentrate the resources of the Board in areas where its contribution could be most significant. The greatest part of the time saving had to come from discussions of country issues, which accounted for the largest amount of work time while demanding the least contribution from the Board. Of course, the discussions of requests for the use of Fund resources should remain matters of priority, and policy issues required clear guidance by the Board. By a process of elimination, Article IV consultations and reviews under arrangements were the best candidates for some time-saving innovations. For Article IV discussions, it was doubtful whether even a time limit of, for example, five minutes on interventions in the Board would result in a drastic reduction in the time spent in the Board, given the large number of countries that were subject every year to either consultations or reviews. A more effective innovation might be to reduce the number of prepared statements to be read in each Article IV consultation discussion. Two speakers, chosen by rotation, could take charge of preparing an in-depth analysis of a country's policies and the staff's recommendations. Other Directors could then intervene for clarification. The discussion would gain focus as it emerged from three main perspectives--that of the country, that of the staff, and that of the few speakers charged with the task of discussing the case. When the Board was reviewing an ongoing program, a sharp distinction ought to be drawn between cases where no major problems had arisen and those where deviations had occurred since the program had been agreed. In the first instance, a case could be made for approving at least some reviews on a lapse of time basis. In the second instance, a Board discussion might be necessary, subject to the same simplified procedure as he had described for Article IV consultations.

On SDR matters, Mr. Zecchini said, he remained deeply interested in studying the role of the SDR in the international monetary system. As for the other staff studies referred to in the Chairman's opening statement, the Board should discuss the first three in a single session and the fourth--on theoretical aspects of design of adjustment programs--in a separate session. Finally, in deciding what action to take on the Group of Ten (G-10) report, it was important for the Board to remain flexible, given that the G-10 Ministers still had to take a number of significant steps before the report was transmitted to the Fund. In any event, whatever was agreed, similar treatment should be accorded the proposals of both the G-10 and the G-24.

Mr. Fugmann remarked, first, that the Board should discuss the G-10 report as soon as it was released; the discussion would be of particular importance to countries outside the G-10. In the section on improvements in the international monetary system, he considered that the Fund, in the light of its recent experience, could make a significant contribution to the functioning of the system by increasing surveillance over the policies of those countries--industrial and developing alike--with a substantial impact on the world economy. Surveillance could be improved by including medium-term balance of payments scenarios in staff reports on major surplus countries similar to those contained in staff reports on deficit countries. Although the staff was not required to present such scenarios for countries that did not borrow in foreign currencies or have an external debt problem, such action would be more evenhanded and would help to increase the effectiveness of surveillance. As for enhanced surveillance, the Fund staff should prepare a paper detailing the developments and experience to date and analyzing, in general terms, the possible advantages and risks for the Fund of enhanced surveillance arrangements. Such a paper would be a useful supplement to the Board's discussion of the chapter on surveillance in the G-10 report.

He welcomed the forthcoming studies on the role of the SDR and the fact that the future of Trust Fund repayments was to be considered by the Board before the Annual Meetings, Mr. Fugmann commented. As to the area departments' work program, since the Fund was heavily dependent on its knowledge of and relations with member countries, the Article IV consultation was the cornerstone of Fund activity, not least with respect to its surveillance function. However, the number of staff reports on Article IV consultations and on the use of Fund resources, while impressive, was overwhelming; and it was questionable whether the Board could cope fully with those reports given the time available.

In setting priorities for the Board's work as a whole, two main issues must be considered, Mr. Fugmann said. The first concerned the allocation of time between policy issues, on the one hand, and Article IV consultations and other surveillance activities, on the other. The second issue was whether or not the staff should spend more time surveying economic activity in the larger industrial countries that had a significant impact on the international financial system. A slightly greater emphasis on policy issues, together with a reduction in time spent on the less problematic countries, could perhaps lead to greater efficiency in the surveillance role of the Fund, while allowing the Fund to maintain a high-quality relationship with all member countries. Although a reduction in the importance of Article IV consultations would not be appropriate, a shift of emphasis might be useful.

A single seminar discussion on the three studies covering the effects of Fund-supported programs would be useful, Mr. Fugmann concluded. However, those studies touched upon important aspects of Fund policies, and, if justified by the seminar discussion, it might be useful to hold a subsequent formal Board discussion on matters covered by the studies that would lead to conclusions pertaining to Fund policies, possibly including confirmation of present policies.

Mr. Nebbia observed that, like the G-10, the Group of Twenty-Four was preparing a paper on possible improvements in the international monetary system for consideration at the next Interim Committee meeting. Expressing the hope that both papers would be ready for Board discussion before the Interim Committee meeting, he stressed the importance of according the same treatment to both reports.

The catalytic role of the Fund, Mr. Nebbia felt, had developed in response to changing circumstances. At present, there were two main groups of countries receiving financing from banks--those that received voluntary financing and those that received involuntary financing through Fund programs. The second group could be further subdivided into larger industrial countries and small countries with heavy debt burdens, which were finding it increasingly difficult to get financing from the banks, despite the catalytic role of the Fund. Even from the first group of countries, which were financed by the banks on a voluntary basis, the commercial banks were requesting more and increasingly stringent programs with the Fund as some sort of warranty for any new money that the banks might provide, and that was a disturbing trend. The Board was currently dealing with requests by both Venezuela and Colombia for enhanced surveillance, and it was possible that later in the year the Board would be asked to supervise new requirements from commercial banks for other countries currently receiving voluntary financing; in that respect, an already dangerous situation was deteriorating.

It was difficult to know whether the arrangement with Colombia could be categorized as enhanced surveillance, as a stand-by arrangement, or as a stand-by arrangement without Fund money, Mr. Nebbia continued. His own view was that the Fund was not involved in enhanced surveillance in Colombia. Enhanced surveillance was the consequence not of Fund programs but rather of surveillance, an important distinction for countries that were receiving voluntary financing. It was important in the circumstances for the staff to prepare a paper analyzing the evolution of the Fund's catalytic role and the implications of some of the recent variants of enhanced surveillance.

The question of enlarged access under stand-by or extended arrangements was extremely important, Mr. Nebbia continued, and should be included in the agenda for the next Interim Committee meeting in a way that would strengthen the final decision that the Board might adopt at a later date. The Board, provided that it followed the guidelines laid down by the Interim Committee, was the most appropriate forum in which to define enlarged access policy. There was no need at present to change a procedure that had worked efficiently in the past.

On SDR matters, it was important to discuss together the question of allocations and the implications of U.S. external current account deficits for the volume of international liquidity, Mr. Nebbia said. Also important was the August 30 discussion of the program of studies on the SDR, which should provide further clarification on what role the SDR was expected to play in the future and what measures would have to be taken in order to allow the SDR to play that role. Legitimate debate on some of the broader issues concerning the future role of the SDR should not, however, preclude a more limited agreement on allocation. Finally, the staff paper entitled, "The Effects of Fund-Supported Programs on Economic Growth" was sufficiently important that it should be discussed in the Executive Board, perhaps on July 12.

Mr. Wicks, responding to points raised by his colleagues on Colombia's request for enhanced surveillance, considered that it was time to ask whether the evolution of the Fund's catalytic role was not transforming the institution into some kind of high-class credit-rating agency for the benefit of the international banking community. Also to be considered were the legal aspects of transmitting Board documents outside government circles.

He had taken note of Mr. Jaafar's comments regarding the availability to Directors of information on the status of Fund programs with members, Mr. Wicks said. He could not agree that the negotiating positions of staff missions required endorsement by the Board before the mission's departure.

The question of access to Fund resources was intimately linked with the issue of prolonged use, and any paper on the former subject should also contain some reference to the latter, Mr. Wicks considered. On the other matters, the U.K. authorities did not attach great priority to SDR discussions, and work on the SDR should not crowd out matters of somewhat higher priority. It was also time to review the compensatory financing facility and to have an in-depth and objective look at the operations of that facility. As for limiting the amount of time spent by the Board on country discussions, there was something to be said for the proposal that Directors should keep the time of their interventions to a minimum.

Mr. Salehkhou, noting that there was a need for fundamental reforms of the international monetary system, pointed out that the developing countries, and in particular the Group of Twenty-Four, had pioneered a number of comprehensive studies on that subject. It was disappointing that those contributions had not been accorded the same priority as the G-10 study. The deliberations of the Interim Committee had contained the clear implication that developing country members should be consulted and asked to participate in the preparation of studies proposing reforms in the international system. The latest communiqué of the Interim Committee had been explicit in referring to "increasing the effectiveness of surveillance over the policies of those industrial countries and developing countries which have a significant impact on the functioning of the world economy." With equal directness, the communiqué had suggested that such studies should be conducted "within the context of the policy of uniform treatment of members." Since effective surveillance over developing-country borrowing members was already quite tight, and since other nonborrowing developing countries did not have a decisive weight within the present system, the area on which to focus attention must be the industrial countries. To date, little effective surveillance had been exercised over the policies of key-currency members, not so much because of a lack of existing rules as because of sheer reluctance on the part of those member countries to be swayed by surveillance. It was naive to suppose that those same industrial countries would come up with a plan that would place greater international control over their own destinies.

Without prejudging the G-10 study, Mr. Salehkhou felt that the report was likely to prove rather one sided and would probably avoid addressing the real issues. Moreover, it was not consistent with the policy of uniform treatment of members that one group alone had been asked to prepare studies on ways to strengthen surveillance both over themselves and over the rest of the Fund membership. Subsequent participation by other members, limited to the Board discussion, would necessarily be ineffectual and at best a partial response. The staff, therefore, should prepare an independent and comprehensive report which, following exhaustive debate by the Board, could form a basis for discussion at the forthcoming Interim and Development Committee meetings. The staff could avail itself of the relevant reports of the G-10, G-24, and other groups that were already available on the subject.

There were serious questions about the adequacy or effectiveness of a piecemeal, ad hoc approach to international monetary and financial reform, Mr. Salehkhou observed. The four topics outlined by the Chairman were all fundamental, but the list was by no means exhaustive. Other issues such as the decision-making process in multilateral institutions, the role of development and financial institutions, the functioning of the capital and commodity markets, the relationship between adjustment and development, as well as other equally important issues, should be addressed at the same time in a comprehensive and an integrated approach to the whole problem. It was not logical to single out a few issues and to study them in isolation. From a tactical point of view, too, it would be better to advance a series of reforms across the board, since a multitude of issues would present a better possibility for political compromise than a few isolated ones.

World Economic Outlook studies should be conducted on a continuous, rather than an ad hoc biannual basis, Mr. Salehkhou emphasized. The importance of the World Economic Outlook, both as an instrument of global surveillance and as a unique publication relied upon by many member countries, implied that such studies should be conducted within a permanent administrative framework of the sort that would require organizational changes within the existing budget and personnel allocation.

Expressing his strong concern over the development of the Fund's catalytic role, Mr. Salehkhou pointed to the recent assurance given by the Deputy Managing Director that the Colombian arrangement, if carried out, would be unique and specific and would not be generalized to cover other countries. Given the attractiveness of such arrangements to commercial banks, it was a legitimate concern that, in the future, banks might require similar arrangements from other borrowing and/or debtor countries before extending credit and finance.

Welcoming the new set of studies on the role of SDR allocations in a multicurrency reserve system, on improvements in the asset's quality, and on the usefulness of SDRs in official and private transactions, Mr. Salehkhou observed that those issues were intimately related to the whole question of reforming the current system, which was based on the special reserve status acquired by a limited number of currencies. Accordingly, it was appropriate that the issues should be addressed in an integrated fashion.

On the staff studies, Mr. Salehkhou stated his preference for a Board meeting to discuss the papers that dealt with the effects of Fund-supported programs on economic growth and the companion papers. The beginning of August was probably a good time to debate that issue. The paper entitled "The Design of Adjustment Programs in Planned Economies" should perhaps be scheduled for Board discussion to coincide with the discussion of the paper, to be issued in September, that would deal with theoretical aspects of the design of adjustment programs. It would then be possible to compare the different frameworks that were used to design the various programs of the Fund. Also, on the basis of assurances given during the recent budget discussion, it would not have been unreasonable to expect some reference in the work program to staff studies on Islamic banking practices and economic theory. He hoped that that omission would be made up for during the next discussion of the work program.

Noting the staff's intention to establish formal contacts with the GATT Secretariat and to produce information notes on major trade policy decisions, Mr. Salehkhou urged that the staff establish similar contacts with UNCTAD, another international institution equally qualified in trade policy matters. Finally, on a procedural matter, he requested that the timetable for Article IV consultations be updated more frequently in order to aid Executive Directors. At present, such a timetable was made available only biannually during the discussion of the work program. If the Secretary could issue an update coinciding with each issue of the tentative schedule of Executive Board meetings, it would improve the currentness of the information available to the Board and would facilitate the transmittal of questions that Directors might wish to put to the authorities through staff missions.

Mr. Joyce asked the Chairman to consult with the Chairman of the Interim Committee to find out what, if any, preliminary work the Board might usefully do on the G-10 report prior to the meetings in Seoul.

Enhanced surveillance had an important bearing on the future work of the Fund, Mr. Joyce continued, not least because of its implications for the relations between the Fund and donors and between the Fund and commercial banks. It would also have an important bearing on the relative roles of the Bank and the Fund. Although circulation of a report on the arrangement with Ecuador and, in addition, informal meetings with Directors on the issue of Colombia were welcome, it was still not clear what role the management and staff of the Fund saw for the Executive Board in the current exercise. Nor was it clear on what basis countries would be selected either for enhanced surveillance or for special surveillance in cases like that of Colombia. It was important to have a discussion on general principles, relating to the Fund's objectives in carrying out enhanced surveillance, the policies that the Fund ought to pursue, and the procedures that it intended to establish for doing so. It would not be optimal to slide that discussion into the report on international capital markets, especially as that report was not scheduled for consideration until after the Annual Meetings and as the issue of enhanced surveillance would, almost certainly, be raised at the Interim Committee meetings. In such circumstances, Executive Directors, who were supposed to have assumed the responsibility for considering the evolution of Fund practices for their Ministers, might feel somewhat sheepish at not having done so.

On other issues, Mr. Joyce welcomed the intention to publish an update on the World Economic Outlook, pointing out that it should not be replaced in any way by the equally important Annual Report, which by definition served a different function. Before the Interim Committee meeting, Executive Directors should discuss questions on the use of Fund resources and enlarged access so that the Board might reach a consensus on those issues.

Regretfully, a short paper on SDR allocations was all that would be useful at present, Mr. Joyce commented. As for the asset's future role, the Board had the responsibility to study the issue, and the discussion could perhaps best be conducted in the context of the broader debate on improvements in the international monetary system, based on guidelines given by the Interim Committee. As for reducing the amount of time spent on Article IV consultations, he agreed that the time had come for the Board to consider new approaches, including limiting the number or length of statements made by Executive Directors.

On the staff studies, Mr. Joyce agreed with Mr. Polak that the first three were not appropriate subjects for Board discussion. On the other hand, "The Design of Adjustment Programs in Planned Economies" clearly had operational implications and should be discussed at the Board. Executive Directors would need to see the fifth study, "Inflation and the Fiscal Deficit," before they could decide in which format they wish to hold their discussion. It was important that the sixth study, "Theoretical Aspects of the Design of Fund-supported Adjustment Programs," be completed as quickly as possible, given the importance of the subject matter.

Mr. Zhang considered that a short but precise paper on the Fund's catalytic role, especially in cases such as Venezuela and Colombia, was a matter of great urgency. There was a danger that the Board could slip by default into a situation in which general principles might evolve even in the absence of an explicit consensus in the Board. As for the SDR, although it was unlikely that there would be any new allocation in the near future, the Board should not relax its efforts to strengthen the role of the asset in the international monetary system.

With regard to the proposed staff studies, Mr. Zhang agreed that the first three papers should be discussed in the Board. It was too facile to assume that, when a country failed to fulfill the conditions of an adjustment program, it had not made enough of an effort; it was not a foregone conclusion that the programs themselves were correct. There ought, therefore, to be a full Board discussion on that topic, although not necessarily before the Annual Meeting. The paper on the design of adjustment programs in planned economies should not be discussed at a full Board meeting but in a seminar, not least because the issues were not yet sufficiently clearly understood to justify the establishment of firm policies with regard to planned economies.

Agreeing that country discussions should be shortened, Mr. Zhang urged the Chairman to limit the time given for replies by staff members. On a related matter, it was not always a good policy to ask the staff to prepare papers on issues for which there were no solutions, as such work only added in the end to the work of Executive Directors. Perhaps staff papers should contain a section summarizing their contents. In a similar vein, it might make sense to issue regular reports on recent economic developments only every two or three years.

Mr. Blandin, remarking on the G-10 report, observed that it was difficult at present to offer any comment on studies that had not yet been completed. Only once the report had been discussed by Ministers and Governors of the G-10 in Tokyo at the end of June would it be appropriate to analyze whether the report--or other similar reports--contained matters on which the Board ought to offer its own comments before the Interim Committee meeting. In that regard, Fund surveillance was among the topics to be discussed by the G-10 Deputies in their report, but it was clear from the most recent Interim Committee communiqué that the Board was expected to focus at least on that issue without waiting for the results of the G-10 report or any other external reports.

On the update of the World Economic Outlook, Mr. Blandin asked whether a revised balance of payments projection for LDCs could be ready before the Seoul meeting. There also ought to be a slightly more detailed breakdown of the country groupings than had been the practice in the past. Moreover, given the recent slowdown in the growth rate in the United States, the underlying assumptions of the medium-term scenario should perhaps be revised. The proposed study entitled "Implications of U.S. External Current Account Deficits for the Volume on International Liquidity" was welcome. In addition and related to SDR matters, the idea that the SDR might play the role of a safety net in the international monetary system should be reflected in the program of studies to be discussed on June 26. The paper on the use of resources of the Special Disbursement Account arising from the termination of the Trust Fund would be useful, especially if it defined the role and the margin of maneuver for the Board in determining their use.

On other subjects not directly related to preparations for the Interim Committee meeting, Mr. Blandin remarked that recent developments in the Fund's catalytic role in mobilizing external finances should be covered in the annual staff report on international capital markets. And the Fund's activity in the enhanced surveillance should continue to be developed on a case-by-case basis.

The first three staff studies, dealing with the effects of multiple adjustment programs, could be published without necessarily being discussed in a seminar, Mr. Blandin considered. The fourth and fifth studies were extremely interesting and relevant to the operation of the Fund; it would be useful to discuss them in a seminar. Finally, the time had come to review ways of limiting the length of discussions in the Board and to allocate Board time more efficiently. The suggestion to reduce the frequency of Article IV consultations for a number of countries, thereby allowing the Fund to direct more attention to cases of particular importance or to policy matters, was an attractive one. Other proposals should also be considered carefully.

Mr. Kolb thought, first, that it would be worthwhile to consider the G-10 report at a Board meeting, which would be useful in assessing the value of that study for the work of the Fund, if it were accompanied by staff comments. Second, further thoughts on the role of the SDR and on possible alternative forms for its use were priority issues for discussion by the Board. Third, while limitations on the time of Directors' interventions on country items might be acceptable, limitations on the number of speakers were not. Finally, staff studies ought to be discussed in seminar form, with the first three in a single item.

Mr. Sengupta mentioned that, when the staff was studying the best use of resources arising from the termination of the Trust Fund, it should also analyze the possibility of reviving that facility.

The Chairman, summing up the discussion thus far, noted that Executive Directors had raised a number of questions about how the Board ought to deal with the G-10 and G-24 reports on improvements in the international monetary system. Since neither the G-10 nor the G-24 had concluded its reports, it was perhaps too early to determine the timing of any Board discussion on them. It was not in his view necessary for the staff to produce a summary paper alongside those reports: if only a summary, such a paper would add nothing to the reports themselves; if additional material were required, Board guidance on the drafting would be needed. In any event, the Fund had not been passive in discussing such matters. Papers had been written on the functioning of the exchange rate, the management of liquidity, the SDR, and surveillance, all of which were major topics under the heading of improvements in the system. However, experience suggested that efforts by the staff to produce recommendations on sensitive subjects were sometimes not well received, and he was reluctant to ask the staff to produce work on which Directors and Ministers might not be ready to reach conclusions.

With regard to the rather complex discussion on the catalytic role of the Fund, the Chairman observed, enhanced surveillance had developed out of the necessity to deal with the debt problems of a number of countries such as Mexico and Venezuela since 1982. The idea of a multiyear approach to rescheduling had evolved as one response to those problems. At the time, strong suggestions had been made that the Fund should be pushing the banking system to adopt a longer-term perspective on rescheduling problems. Indeed, by June 1984, the bankers had been swayed by the argument, and the approach had been strongly endorsed in the London Summit communiqué and more recently by the Interim Committee. However, it had become clear that multiyear reschedulings could not be established without something more than the routine Article IV surveillance by the Fund. In response to that need, the Board had evolved the Mexican-Venezuelan model and had been kept well informed about the discussions with the banks and countries in question.

The evolution of the Colombian case had followed slightly different lines, the Chairman went on. In that respect, he had been surprised by the suggestions from some that the Board was being asked to endorse agreements that had already been made. Directors had been informed of Colombia's request three days after it had been tendered. He himself had been cautious in responding to the President of Colombia and had told him that his request was outside the usual Fund's practice in that field and that it would be necessary to discuss the request with the Executive Board to review the implications of acceding to such a request. That had been exactly the action taken. It was clear that the Board had been fully informed about the discussion with Colombia and had maintained its freedom of action. Of course, the staff would produce a paper examining the policy implications of enhanced surveillance for the Fund; if Directors had strong feelings that it should be written at an earlier stage than had been suggested in the work program, an effort would be made to meet their request. It was important, however, to be aware that the more formalization the greater the risk of creating "precedents."

Directors were agreed that the Board should discuss the issue of enlarged access in preparation for the Interim Committee meeting in October, the Chairman remarked. While his own view was that matters like enlarged access could best be dealt with by the Executive Board, the view was clearly that the Interim Committee should give the Board guidance on the matter.

A short updated paper on SDR allocations would be prepared for the Board's reconsideration of the issue, the Chairman continued. The idea of a program of studies on the role of the SDR was welcome, not least because there could have been some inconsistency between the expression of doubts by Ministers on any role that the SDR could play, given the changes in the system since 1968 and the reluctance to study the systemic features of the SDR in a multicurrency world.

On the area departments' work program, the Chairman stated, he had listened with interest to the suggestions made by Directors for shortening Board discussions on country consultations. While he would of course go along with any procedures that might be agreed by Directors, he would not wish to be the instrument of discipline and would not cut short the discourse of any Director.

On how to allocate the Board's time for staff studies, the Chairman observed that a consensus seemed to have emerged for dealing jointly with the first three papers listed in his statement in a seminar discussion. "The Design of Adjustment Programs in Planned Economies" and "Inflation and the Fiscal Deficit" were considered important for the operational work of the Fund and could be taken up either in a formal Board meeting or in a seminar. The paper entitled "Theoretical Aspects of the Design of Fund-supported Adjustment Programs" dealt with a crucial matter that should not, in the view of Directors, be further delayed. The question of the form of information notes on trade policy matters would be taken up with the GATT before specific proposals were brought back to the Board. The remarks of Directors on the question would of course be taken into account.

He hoped that his personal remarks on one particular matter raised in the course of the discussion would not be considered inappropriate, the Chairman commented. Full Board discussions on country matters were valuable, not least because they were used as a guide in follow-on discussions with members. The staff listened to the comments of Executive Directors on countries and, as a consequence, often altered its operational approach to members. Crispness of expression was obviously important in the effort to make efficient use of Board time, but Directors must feel free to articulate their views, which were distilled into a Board view and gave management and staff much more authority in giving policy advice to members. That was really the heart of surveillance.

Mr. Nimatallah, returning to the matter of enhanced surveillance, expressed his support for the way in which procedures in multiyear rescheduling arrangements had been developed. The surprising thing, however, about the case of Colombia was that the new money involved in the rescheduling agreement had not come from the Fund. The question that several Executive Directors had been asking was whether that development could lead to less and less money deriving from Fund sources. The fear that the special case of Colombia might, at some point, become the natural order of events was the reason why certain Directors had been taken aback by the speed at which the Colombian case had developed. He hoped that management would understand that Directors were simply showing proper concern for the future of the Fund.

The Chairman replied that the special form of enhanced surveillance requested in the case of Colombia had arisen out of a conversation with the President of the Republic, who had said that he did not want a Fund program--for internal political reasons--but that he wanted to abide by all the prescriptions and conditions that would have been included in a Fund program. As Managing Director of the Fund and Chairman of the Executive Board, he had brought the matter to Directors for consideration. Of course, the Colombian case had raised some systemic questions with which the Board would have to try and deal efficiently and without infringing fundamental principles. However, it would be wrong to blow the particular case of Colombia out of proportion. He could not say that a similar case would never again arise, but frequent occurrences of such cases were in his view most unlikely.

2. SIERRA LEONE - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINT UNDER RULE K-1, AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors considered the Managing Director's report and complaint under Rule K-1 and notice of Sierra Leone's failure to settle Trust Fund obligations (EBS/85/106, 4/30/85).

The Chairman stated that the complaint and notice were for initial disposition only. The draft decision was proposing that the matter be placed on the agenda for substantive consideration on June 28, 1985.

The staff representative from the Treasurer's Department, indicating that no payment had been received from Sierra Leone since the issuance of EBS/85/106 on April 30, 1985, explained that the country's overdue obligations to the Fund totaled SDR 7,081,880, of which SDR 5,087,874 was overdue in the General Department, SDR 368,389 in the SDR Department, and SDR 1,625,617 to the Trust Fund. As noted in paragraph 11, the report and complaint under Rule K-1 and the notice with respect to the Trust Fund would be amended to reflect the overdue obligations currently outstanding. In the light of the overdue obligations in the SDR Department, the Managing Director would shortly issue a complaint under Rule S-1 on a lapse of time basis for substantive consideration by the Board on the occasion of the Board's substantive consideration of the complaint under Rule K-1.

Mr. Mtei said that his authorities in Freetown were well aware of the Board's discussion and were concerned about the arrears that had built up in the settlement of obligations to the Fund. The foreign exchange situation of the country remained precarious, despite the stabilization measures recently implemented by the Government. The authorities had indicated that expenditure was under control and that fiscal discipline had been restored over the past few months. There had also been a move toward a more realistic exchange rate since the adjustment of February 21, 1985, as evidenced by the continuing downward trend in the parallel market rate. Finally, the authorities had stated that they would do everything in their power to settle the outstanding obligations to the Fund as soon as they had mobilized sufficient financial resources for the purpose.

Ms. Lundsager, supporting the proposed decision, said that she was concerned about the evolution of the approach adopted by the Board for dealing with overdue obligations. The setting of formalized time periods for substantive consideration of complaints and notices was tantamount to establishing grace periods; while she was not certain what could be done about the situation, she wanted to make certain the Board was aware of it. Sierra Leone had experienced difficulties on and off for about two years, and large payments to the Fund would come due in the next few years. The staff had indicated that the economic measures taken so far in 1985 were insufficient to reverse the deteriorating situation. It was thus important to convey the urgency of the matter to the authorities.

Mr. Nimatallah, noting that he shared the concerns expressed by Ms. Lundsager, considered that the authorities in Freetown had given insufficient indication of what precise steps they were going to take to ensure prompt repayment. It should be understood that they had one month in which to give a clear indication of the steps that they were going to take.

The Chairman agreed that the extra month should not be viewed as a grace period but should be used by the authorities to make a concrete effort to tackle the problem.

The Executive Board then adopted the following decision:

1. The complaint of the Managing Director dated April 29, 1985 on Sierra Leone, as amended (EBS/85/106, Sup. 1, 5/30/85), is noted. It shall be placed on the agenda of the Executive Board for June 28, 1985.

2. The notice of the Managing Director, dated April 29, 1985, as amended (EBS/85/106, Sup. 1, 5/30/85), on the failure by Sierra Leone to fulfill obligations under Decision No. 5069-(76/72) on the Trust Fund, is noted. The notice shall be placed on the agenda of the Executive Board for June 28, 1985.

3. Consideration of the complaint in accordance with Rule K-1 and of the notice particularly affects Sierra Leone. The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative.

Decision No. 7991-(85/82) G/TR, adopted
May 29, 1985

3. BANGLADESH - REPORT ON EMERGENCY SITUATION

Mr. Finaish, referring to the severe cyclone and tidal wave that had swept over coastal Bangladesh early on May 25, asked whether the staff or Mr. Sengupta could provide further details on the cost, both human and economic, to the country, which was already in a difficult economic situation. It would also be useful to know whether the staff mission, currently in Dhaka, had had a chance to make an early assessment of the balance of payments impact of the disaster and also whether consideration was being given to the provision of assistance from the Fund under the facility for emergency assistance related to natural disasters.

The Director of the Asian Department remarked that the staff was reviewing the possibility of Fund assistance to Bangladesh. A staff mission had a few days earlier arrived in Dhaka to conclude Article IV consultation discussions and to discuss possible use of Fund resources under the compensatory financing facility and a possible stand-by arrangement. The team would review carefully the balance of payments impact of the recent disaster in order to assess the feasibility of Fund assistance to deal with the problem. The staff would be guided by the views of the Executive Directors expressed at EBM/82/15 (2/10/82), when they had considered the staff paper entitled "Fund Policies with Regard to Emergency Assistance Related to Natural Disasters." The Managing Director had cabled the Governor for Bangladesh, extending his deepest sympathy for the colossal tragedy that had befallen the country.

Mr. Sengupta pointed out that, although there had been some assessment by the Bangladesh Government of the extent of the damage, that assessment would change as more information became available. The President had said that relief and rehabilitation efforts would cost more than $40 million. The number of known dead at present totaled 5,000, and about 20,000 people were missing. The authorities in Bangladesh were afraid that the number of missing or dead could rise to 30,000 or even 55,000. Moreover, some 200,000 people had been rendered homeless, their cattle herds and homes destroyed. The impact on the balance of payments could not be fully assessed until more information was available. Although the authorities had not yet asked for specific assistance, they would undoubtedly appreciate some indication that the Fund would consider sympathetically whatever problems they might have.

Mr. Finaish, expressing sympathy on behalf of his constituency, stated that he would support the maximum assistance that the Fund could provide.

4. KINGDOM OF THE NETHERLANDS - NETHERLANDS ANTILLES - ARUBA - REQUEST FOR FUND ADVICE

Mr. Polak noted that discussions were currently taking place between the Fund staff and the authorities in Aruba on an economic adjustment plan for that island. At present, Aruba formed part of the Netherlands Antilles, a group of islands in the Caribbean that was an autonomous region in the Kingdom of the Netherlands. The autonomy of the Antilles was recognized by the fact that the Fund held separate Article IV consultations with them. On January 1, 1986, Aruba would leave the Netherlands Antilles to become a separate region within the Kingdom, with its own currency and central bank. The separation would come at a particularly difficult time for Aruba, in that its major source of foreign exchange and government revenue, the large Largo oil refinery, had been closed at the end of March 1985. Aruba had therefore been forced to undertake a major adjustment effort at short notice. The authorities in Aruba, in the Netherlands Antilles, and in the Kingdom of the Netherlands had asked the Managing Director to send a staff team that could enter into policy discussions with authorities in Aruba and provide expert advice in the design of a workable adjustment program for the next two or three years. That team would visit Aruba shortly; and a team of experts from the Netherlands would be in Aruba at the same time, partly to assist the Fund team and also to consider with the Aruban authorities the terms on which the Netherlands Government would make available transitional financial assistance to them.

The Executive Directors took note of Mr. Polak's remarks.

Mr. Clark asked Mr. Polak to elaborate on the monitoring arrangements envisaged for Aruba, in the light of the comments made earlier in the day about Colombia.

Mr. Polak replied that no banks were involved in the case of Aruba; the assistance to be provided by the Netherlands was a financial arrangement essentially within the country itself. The role of the Fund was simply to provide technical advice to part of a member country. Any follow-on between the initial provider of money--the Netherlands--and Aruba would be done on a bilateral basis. It would not lead to any further enhanced surveillance or extra missions by the Fund.

The Executive Board then concluded its discussion and adjourned.

APPROVED: March 11, 1986

LEO VAN HOUTVEN
Secretary