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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/132

3:00 p.m., September 4, 1985

J. de Larosière, Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| | Mawakani Samba |
| | L. K. Doe, Temporary |
| | M. K. Bush |
| | M. Lundsager, Temporary |
| | H. G. Schneider |
| | G. Ercel, Temporary |
| B. de Maulde | C. Flamant, Temporary |
| M. Finaish | |
| H. Fujino | M. Sugita |
| G. Grosche | |
| J. E. Ismael | Jaafar A. |
| R. K. Joyce | |
| A. Kafka | |
| | H. Fugmann |
| E. I. M. Mtei | A. Abdallah |
| F. L. Nebbia | B. Jensen |
| Y. A. Nimatallah | J. E. Suraisry |
| P. Pérez | |
| J. J. Polak | |
| C. R. Rye | |
| G. Salehkhou | O. Kabbaj |
| | A. S. Jayawardena |
| | V. Govindarajan, Temporary |
| | T. A. Clark |
| | N. Coumbis |
| Zhang Z. | Jiang H. |

L. Van Houtven, Secretary
S. J. Fennell, Assistant
S. L. Yeager, Assistant


1. Role of Fund in Assisting Members with Commercial Banks and Official Creditors . . . . . . . . . . . . . . . . Page 3
2. Zambia - Overdue Financial Obligations - Report and Complaints Under Rule K-1 and Rule S-1, and Notice of Failure to Settle Trust Fund Obligations . . . . . . . . Page 8
3. Guinea-Bissau - 1985 Article IV Consultation . . . . . . . Page 13
4. Interim Committee - Agenda . . . . . . . . . . . . . . . . . Page 22

Also Present

IBRD: F. Fisher, Executive Secretary, Development Committee. P. Gil, Western Africa Regional Office. African Department: A. D. Ouattara, Director; R. J. Bhatia, Deputy Director; P. A. Acquah, J. Artus, J. P. Briffaux, J.-C. Braou, E. A. Calamitsis, C. V. Callender, M. G. Fiator, J. E. Greene, T. Muzondo. European Department: A. Fidjestol. Exchange and Trade Relations Department: C. D. Finch, Counsellor and Director; W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; G. Belanger, J. T. Boorman, E. H. Brau, G. R. Kincaid, R. L. Sheehy, C. M. Watson. External Relations Department: C. S. Gardner, Deputy Director. Fiscal Affairs Department: H. J. De Zoysa, H. Diamond. IMF Institute: O. B. Makalou. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; W. E. Holder, A. O. Liuksila, S. A. Silard, J. V. Surr. Research Department: R. R. Rhomberg, Deputy Director. Secretary's Department: A. P. Bhagwat, G. Djeddaoui, P. Péroz. Treasurer's Department: T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; D. Berthet, J. E. Blalock, J. C. Corr, S. I. Fawzi, M. F. Melhem. Western Hemisphere Department: S. T. Beza, Associate Director; I. C. Tandeciarz. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, G. R. Castellanos, D. Hammann, J. Hospedales, J.-C. Obame, P. Péterfalvy, T. Sirivedhin, E. M. Taha, D. C. Templeman, N. Toé, A. Vasudevan, M. A. Weitz, K. Yao. Assistants to Executive Directors: J. R. N. Almeida, I. Angeloni, M. B. Chatah, J. de la Herrán, R. Fox, S. Geadah, V. Govindarajan, N. Haque, G. D. Hodgson, L. Hubloue, O. Isleifsson, Z. b. Ismail, H. Kobayashi, R. Msadek, J. A. K. Munthali, K. Murakami, E. Olsen, J. Reddy, D. J. Robinson, J. E. Rodríguez, M. Sarenac, A. A. Scholten, B. Tamami, A. J. Tregilgas, B. D. White, Yan W.-M., A. Yasseri.

1. ROLE OF FUND IN ASSISTING MEMBERS WITH COMMERCIAL BANKS AND OFFICIAL CREDITORS

The Executive Directors continued from the previous meeting (EBM/85/131, 9/4/85) their consideration of the staff report on the role of the Fund in assisting members with commercial banks and official creditors (EBS/85/173, 7/23/85; Sup. 1, 8/13/85; and Sup. 1, Cor.1, 8/14/85).

The Chairman remarked that there were a few questions regarding enhanced surveillance procedures that needed clarification following the discussion at the two previous Executive Board meetings (EBM/85/130 and EBM/85/131). First, he asked Directors to indicate their positions on whether enhanced surveillance arrangements should be associated only with multiyear rescheduling arrangements.

Mr. de Maulde, Mr. Finaish, Mr. Fujino, Mr. Grosche, Mr. Joyce, Mr. Nebbia, Mr. Pérez, Mr. Polak, Mr. Rye, Mr. Schneider, Mr. Sengupta, Mr. Zhang, and Mr. Jaafar stated that enhanced surveillance should be associated with multiyear rescheduling arrangements only.

Mr. Dallara, Mr. Fugmann, Mr. Nimatallah, Mr. Zecchini, and Mr. Clark stated that they took a somewhat flexible attitude and would consider requests for enhanced surveillance procedures from member countries that were not concluding a multiyear rescheduling arrangement.

The Chairman recalled that Directors had been somewhat divided at the previous meeting on the timing of the distribution of staff reports to the commercial banks.

Mr. Joyce remarked that he agreed with Mr. Finaish that it would be embarrassing for the authorities to find themselves in a position where the private creditors had access to the staff reports before they had. Staff reports should be distributed to the creditors only after they had had time to reach the capitals of member governments--perhaps after two weeks.

Ms. Bush remarked that she continued to feel strongly that staff reports should be released only after the Executive Board meeting.

Mr. Salehkhou recalled that there had been cases in the past where the Executive Board had not shared the staff's view as expressed in its paper. If the staff papers were released after their consideration by the Executive Board, there would be a chance to revise the paper to reflect the Executive Board's view correctly.

The Director of the Exchange and Trade Relations Department remarked that the commercial banks recognized that the staff papers reflected the views of the staff. The purpose of enhanced surveillance procedures was to provide information to the banks, which would then make their own judgments on the policies being pursued by the country concerned. The staff report was not intended to reflect the formal views of the Fund.

Mr. Salehkhou remarked that if the staff views were more negative than those of the Board, the relationship between the Fund and the member could be damaged considerably if the reports were released before the Executive Board meeting.

The Chairman pointed out that the Fund was not forcing members to distribute the staff reports; the authorities concerned actually wished to release the reports to their creditors.

Mr. Clark stated that Mr. Joyce's suggestion that the staff report be issued to the creditors two weeks after it had been distributed to Executive Directors seemed to be the appropriate course of action.

Mr. Grosche and Mr. Rye indicated their agreement with Mr. Clark.

Ms. Bush suggested that in cases where the Executive Board's view differed substantially from that of the staff, the member could communicate the summing up to its creditors.

Mr. Polak said that that possibility could be considered if the issue ever arose.

Mr. de Maulde noted that as such a case was so exceptional he could go along with Mr. Polak.

The Chairman remarked that if the Executive Board's view differed considerably from that of the staff, he could notify the banking community of the difference of opinion in light of the specific circumstances.

Mr. Nebbia considered that it was up to the member concerned to decide whether and when to issue the staff reports and communicate the Executive Board's views to the commercial banks.

Mr. Salehkhou suggested that it should be made clear in the staff reports that the report reflected only the views of the staff and not the views of the Board.

Mr. Rye commented that there was no need to include a disclaimer of any kind in the staff reports. However, if a member country was concerned that the views in the staff report had been different from the views of the Executive Board, the authorities could approach the Executive Director, who could refer the situation to the Managing Director or the Executive Board for further consideration.

The Director of the Legal Department commented that the Executive Board and the Managing Director, in accordance with the Articles of Agreement, were authorized to express the views of the Fund. On occasion, the staff, within the context of an Executive Board decision, could be authorized to express the Fund's views, as was the case when it determined whether a member was in compliance with the performance criteria under a stand-by arrangement. In a staff report, the staff expressed its views not in a private capacity but as officials of the Fund.

Mr. Kafka, responding to the Director of the Legal Department, stated that he had understood that a finding of noncompliance with performance criteria was subject to Board approval.

The Director of the Legal Department stated that he had been referring to the situation where the staff was sometimes called upon by the decisions taken by the Executive Board to determine whether a member was still qualified to draw under a stand-by arrangement in support of a program. Although that determination was communicated by the staff to parties outside the Fund, the views represented those of the Fund.

The Director of the Exchange and Trade Relations Department pointed out that the agreement between the creditors and the member regarding enhanced surveillance clearly indicated that the staff reports were summaries of policy discussions between the authorities and the staff and that the staff appraisal reflected the views of the staff. The staff would be particularly careful to stress that issue in any future enhanced surveillance agreements.

Ms. Bush stated that she was somewhat concerned by the suggestion that it was up to the member concerned to determine whether the Executive Board's views were to be communicated to the financial community. Given the nature of an enhanced surveillance agreement and the involvement of the Fund in the procedures, it would be wrong if the Executive Board was not involved in determining whether the situation warranted the communication of its views to the financial community.

The Chairman made the following summing up:

General remarks

The procedures relating to enhanced surveillance that have been discussed by Directors were developed in response to the need to help members make progress toward addressing their debt problems and improving their relations with their creditors in an orderly manner and in a broader framework.

It was noted by many Directors that by adapting some of its policies, the Fund had played a central role in helping to limit the disruptions associated with the debt crisis and in promoting a normalization of debtor/creditor relations. Most Directors, however, observed that the practice of enhanced surveillance that had developed involved some risks. Some Directors stressed the risk of a possible weakening of Fund conditionality. Others feared that the Fund might tend to become too deeply and too specifically involved in relations with the commercial banks, and that generalized reliance on the Fund's judgment by the international community could affect the Fund's credibility and interfere with the normal functioning of the markets, which should rely eventually on the bank's own assessments. In other words, enhanced surveillance in the view of most Directors should not become a substitute for stand-by and extended arrangements and should not crowd out or dilute the Fund's normal procedures and transform the institution into a kind of universal credit-rating agency. In that vein, a majority of Directors, while recognizing the usefulness of the practices that have evolved, considered that enhanced surveillance should be used on a limited basis under the guidance and control of the Executive Board, essentially to help promote multiyear rescheduling arrangements, although all of them might not be associated with enhanced surveillance.

Criteria and procedures

Criteria for the adoption of enhanced surveillance

While several Directors insisted on the need for flexibility and on the importance of avoiding too rigid criteria, most Directors felt that enhanced surveillance could be undertaken when the four following conditions are met: first, at the request of a member country, who must initiate the procedures; second, in cases where a good record of adjustment has been shown; third, in cases in which a multiyear rescheduling arrangement is needed to normalize market relations and to facilitate the return to voluntary or spontaneous financing; fourth, in cases where the member is in a position to present an adequate quantified policy program in the framework of consultations with the Fund staff, which are part of the procedure of enhanced surveillance.

Length of the Fund's involvement

Directors thought that, on the whole, the early cases of enhanced surveillance had covered rather too long periods. They felt that in the future the Fund should try to limit the procedure to about the consolidation period of a multiyear rescheduling arrangement. I would suggest that we should retain some flexibility and remain open to the possibility of extending enhanced surveillance a little beyond the consolidation period. If the Fund were to cut off enhanced surveillance at the end of the consolidation period, the communication of reports to the banks would be halted at a delicate time in the normalization of relations between the country and its creditors; i.e., at the time when the country will need more voluntary financing to meet external payments falling due. While we should try to limit enhanced surveillance as much as possible to the consolidation period, there might be occasions when an extension of enhanced surveillance into the period after consolidation may be necessary and warranted.

Trigger mechanism

A number of Directors feared that staff involvement in the design and the negotiation of trigger mechanisms between the commercial banks and the member country risked diluting the bank's responsibility in the monitoring process under multiyear rescheduling arrangements and risked engaging the Fund in providing on/off signals to the banks. Most Directors felt that the staff should not negotiate or take responsibility for designing and assessing trigger mechanisms. But, if the member wished, the Fund staff would not refuse to give its views on the purely technical merits or drawbacks of such mechanisms. It is important to emphasize that the Fund should take no active part in the negotiation of the design of these trigger mechanisms.

Contents and distribution of staff reports

Directors stressed the need to ensure that staff reports to be issued to creditor banks under the policy of enhanced surveillance continue to provide full and frank assessments of the policies and economic prospects of member countries. While a number of Directors were of the view that staff reports should be made available to creditor banks under the enhanced surveillance procedures only after the Executive Board had met to discuss the reports, most Directors agreed that countries would be authorized to release these staff reports to their creditor banks not earlier than two weeks after their issuance to the Executive Board. The majority of Directors were of the view that authorization to release staff reports should be provided by a general decision pertaining to all cases for which enhanced surveillance is agreed rather than by an individual decision in each case. The reports to be released to creditor banks would reflect only the staff's views and would not contain any reference to the discussions and views of the Executive Board. No amendments to the staff report other than the deletion of references to Board discussions would be made.

Involvement of the Executive Board

I understand that the procedure would be as follows: first, request by a member for enhanced surveillance; second, management assesses the case in accordance with the policies agreed by the Executive Board today and determines whether to submit the request for the endorsement of the Board. In cases where the criteria raise delicate problems of interpretation, management would continue to consult informally with Executive Directors at the earliest opportunity.

The Colombian case

The view was expressed that the Colombian arrangement had been useful and could be extended to other cases, in particular, cases of prolonged use of Fund resources. However, the majority of Executive Directors considered that the arrangements with Colombia were not a case of enhanced surveillance and that their extension to other countries was unlikely and undesirable. The usefulness of precautionary stand-by arrangements was mentioned by a number of Directors in this regard.

Review of the policy on enhanced surveillance

A number of Directors suggested that in view of the need to assess changing circumstances and the possible effects of the procedures for enhanced surveillance on the Fund and its policies, the Board should engage in a periodic review of the policy of enhanced surveillance, with an initial review to be held in about one year.

2. ZAMBIA - OVERDUE FINANCIAL OBLIGATIONS - REPORT AND COMPLAINTS UNDER RULE K-1 AND RULE S-1, AND NOTICE OF FAILURE TO SETTLE TRUST FUND OBLIGATIONS

The Executive Directors gave initial consideration to the Managing Director's report and complaints under Rule K-1 and Rule S-1 relating to Zambia's overdue financial obligations in the General Department and in the SDR Department, and the notice of Zambia's failure to fulfill its obligations to the Trust Fund (EBS/85/180, 7/31/85).

The staff representative from the Treasurer's Department reported that since the staff paper had been issued, a further repurchase equivalent to SDR 10.6 million had fallen due; Zambia's overdue obligations at present totaled SDR 78.1 million, and the complaints and notice would be amended accordingly.

Mr. Mtei said that the Zambian authorities had asked him to express to the Executive Board their deep regret about the circumstances that had led to a rapid buildup of overdue financial obligations to the Fund since the first arrears had emerged in April 1985. Since the Board had reviewed economic developments in Zambia on the occasion of the midterm review of the stand-by arrangement in November 1984 (EBM/84/169, 11/26/84), financial imbalances had grown, giving rise to unavoidable economic and financial difficulties. For example, despite some improvement in the current account, reflecting in part an increase in export receipts, the overall balance of payments position was expected to remain under severe pressure, with the deficit widening from SDR 427 million in 1984 to SDR 477 million in 1985. External reserves had been virtually depleted, with gross reserves having been equivalent to only four weeks of imports at the end of 1984. Those developments, together with the continued shrinkage in real output, continued to hamper overall economic management and the smooth implementation of the adjustment program. As a consequence, the stand-by arrangement had become inoperative earlier in the year, despite the Government's determined efforts to press ahead with major policy initiatives in the face of great opposition to further austerity from the strong and politically vocal workers' union.

Nevertheless, the Zambian Government was determined to halt and reverse the deterioration in the economic and financial situation, Mr. Mtei continued. To that end, they had intensified consultations with the Fund's management and staff with a view to implementing a comprehensive adjustment program that could be supported by the use of Fund resources. The authorities had already agreed upon far-reaching policy measures with a recent staff mission. Measures related to exchange rate policy, producer and consumer pricing policies, and the budget, together with other actions being contemplated, should go a long way toward addressing the fundamental weaknesses in the economy. The authorities recognized that those efforts would need to be complemented by a continuous flow of external resources. Accordingly, they had been discussing with the World Bank and donors the possibilities for further financial assistance on concessional terms. To that end, a consultative group meeting was planned in the near future. The authorities were hopeful that the implementation of the proposed provisional adjustment program to be supported by the use of Fund resources could help mobilize additional external assistance, thereby enabling Zambia to regularize its position with the Fund and eventually to reach a firm agreement on a stand-by arrangement.

The Zambian authorities attached great importance to their relations with the Fund, particularly at the present crucial stage in their adjustment effort, Mr. Mtei concluded. They wished to assure the Board that they were fully aware of the adverse consequences for both their country and the Fund of their inability to settle their overdue financial obligations. They wished to emphasize that the rapid accumulation of overdue obligations to the Fund in recent months was neither negligent nor deliberate but rather reflected genuine problems that continued to plague the economy.

Mr. Nimatallah noted that Mr. Mtei had referred to contacts between the Zambian authorities and the Fund's management and staff. He asked the staff to summarize the substance of its communications and contacts since Zambia's initial failure to settle obligations due to the Fund at the end of April.

The staff representative from the African Department responded that a staff mission had visited Lusaka in April and, in view of the deterioration in Zambia's balance of payments prospects, had urged the authorities to adopt more comprehensive adjustment policies. Although the authorities had been receptive to some of the staff's recommendations, agreement had not been reached on a program that would have kept the stand-by arrangement on track. Subsequently, during a visit to authorities and the staff had again discussed economic policy measures to be implemented in the context of a program supported by the Fund. Although there was again agreement in principle, there was little movement toward adopting specific policy measures that could be translated into program targets and ceilings. At the end of July a joint Fund-Bank staff team visited Zambia for technical discussions regarding the implementation of the envisaged reform of the exchange system and supporting adjustment measures and to review the current and prospective liquidity position. However, the procedures and modalities for introducing the reforms could not be developed, because the authorities thought more time was required for technical preparation and to develop a national consensus in favor of the reform.

During recent contacts with the staff, the authorities had discussed introducing an auction-based exchange rate system and liberalizing the trade and payments system, the staff representative from the African Department noted. The staff had recommended that a comprehensive set of supporting measures be developed before the new system was implemented. The previous day the authorities had taken a concrete step in that direction, introducing an auction market for treasury bills and freeing interest rates. Contact with the authorities was ongoing, and the staff expected to discuss a comprehensive macroeconomic adjustment program and supporting policies during a follow-up mission to Zambia in the near future.

Mr. Nimatallah asked whether the causes underlying the recent failure to implement a successful adjustment program still prevailed, and if so, whether they could be overcome in the near future.

The staff representative from the African Department responded that in its recent contacts with the Zambian authorities, the staff had detected a renewed political commitment to implementing an adjustment program. The reforms being contemplated were thought to have the full support of the President and his economic advisors. Weaknesses in the adjustment program, especially in the area of budgetary control, would need to be addressed; those matters were also being discussed with the authorities at the present time.

Mr. Nimatallah noted that according to the staff paper "the 1984 budget deficit of K 385 million, 7.3 percent of GDP, was 3 percentage points above the original program target...." That fact, and the other slippages that had led to the interruption of the program, did not convince him that the authorities were taking a serious view of what needed to be done. Moreover, the obligations due to the Fund were mounting rapidly and in a few years could total SDR 934.6 million. He invited Mr. Mtei to comment on the course of action his authorities were contemplating to eliminate the serious problem of overdue financial obligations to the Fund.

Mr. Mtei confirmed that as the staff representative had explained, the Zambian authorities were having serious ongoing discussions with the

the Zambian authorities were having serious ongoing discussions with the staff, and a technical mission was expected to visit Lusaka soon to assist in the reform of the exchange rate system. Budgetary control was weak and had not been brought under control. However, with the support being given by the President to financial reform, it was hoped that it would be possible to introduce more discipline in that area. The only question that remained was one of timing; the will to resolve the problem was already evident.

The Chairman observed that Fund-supported adjustment programs were calibrated to make repayments to the Fund consistent with a country's balance of payments capabilities. If slippages occurred in the program and if arrears continued over a long period, the amounts overdue accumulated quickly and became difficult to settle.

He asked Mr. Mtei to convey to his authorities the view of the Executive Board that action was needed quickly, the Chairman continued. Although the arrears were sizable, amounting at present to about SDR 78 million, the problem was still solvable. Because payments due to the Fund would mount rapidly in the years to come, it was in the interest of Zambia that the situation not be left out of control.

The Fund stood ready to help the authorities take the needed remedial actions, the Chairman went on. The World Bank and the donor community would also be prepared to assist Zambia, if the country successfully implemented the necessary policy reforms. Nonetheless, the Fund could offer its assistance only if action were taken quickly to settle outstanding obligations and to give adequate priority to repaying obligations to the Fund. It was disappointing to note that no payment had been made to the Fund since the end of July. It was important that a member use the time periods provided by the Fund's procedures for dealing with overdue obligations to give tangible signs of mending its relations with the Fund. The general principle underlying those time periods was not just to give the member breathing space but also an occasion to improve its situation and establish correct priorities.

Mr. Nimatallah recalled that during the Executive Board's discussion on Tanzania's overdue obligations, he had emphasized that members should not wait until a deadline approached before discussing the problem with the Fund. The Fund should be made aware of the efforts a member was making to settle its overdue obligations. Because the Fund's resources were intended to be revolving, members should seek to make their repayments promptly so that resources could be made available to other members.

Ms. Bush said that she endorsed the comments made by the Chairman and Mr. Nimatallah. Although Zambia's arrears were sizable and had accumulated rapidly, early action would make it easier to redress the situation. From what Mr. Mtei had indicated, the President of Zambia seemed to be committed to some of the actions needed to get economic reform under way. The most cogent indication of the seriousness of Zambia's intentions to implement adjustment measures and to repay its arrears--would be to make some payments as soon as possible.

The Secretary observed that a date had to be set for the substantive consideration of the complaint and notice regarding Zambia's overdue financial obligations. The usual procedure would be to place the matter on the agenda for consideration within one month following the present meeting. However, by early October the Board would move the quorum to Seoul, Korea. Therefore, the matter could be considered before the quorum moved from Washington--on or before September 30--after which time many Board members might already be traveling to regional caucuses. Alternatively, the matter could be placed on the agenda of a meeting to be held in Seoul, perhaps on October 5, before the Interim and Development Committees began their meetings.

Mr. Jayawardena pointed out that October 5 might conflict with meetings of the Group of Twenty-Four.

Mr. Nimatallah suggested that the matter be scheduled for consideration within approximately two weeks. It was important that the time periods that had been established by the Board not be taken for granted as immutable or as grace periods.

Mr. Mtei pointed out that the Zambian authorities had the right to present their case to the Board. If the matter was scheduled for consideration in Seoul, both the Minister and the Governor of the Bank, who would be attending the Annual Meetings, would be available. As for Mr. Nimatallah's proposal, two weeks might not be sufficient for the authorities to travel to Washington.

Ms. Bush remarked that while she sympathized with Mr. Nimatallah's desire to avoid rigid adherence to time periods, because the quorum and the Zambian authorities would both in Seoul, she could agree to scheduling discussion for October 5. However, were it not for the Annual Meetings, she would have preferred to shorten the time period for consideration of the matter because quick action could help solve Zambia's the problem.

Mr. Nimatallah observed that in addition to securing agreement that the authorities would be present in Seoul, it was also necessary that they communicate to the Fund that remedial action would be taken.

Mr. Flamant stated that he supported Mr. Mtei's proposal that the Board meeting be held in Seoul.

The Chairman observed that Executive Directors wished to take up the matter in Seoul at a date to be agreed with the authorities. Directors expected that the Zambian Minister and Governor would be in Seoul for the Annual Meetings, and would take advantage of that opportunity to report on the situation. Meanwhile, the Fund expected some tangible manifestation of Zambia's efforts to resolve its problem in the form of some repayment.

Following a brief discussion, Directors agreed to meet in Seoul on October 5 following the Meeting of the Group of Twenty-Four.

The Executive Board then took the following decision:

1. The complaints of the Managing Director dated July 31, 1985 on Zambia, as amended (EBS/85/180, Sup. 1), are noted. They shall be placed on the agenda of the Executive Board for October 5, 1985.

2. The notice of the Managing Director dated July 31, 1985, as amended (EBS/85/180, Sup. 1), on the failure by Zambia to fulfill obligations under Decision No. 5069-(76/72), adopted May 5, 1976, on the Trust Fund is noted. The notice shall be placed on the agenda of the Executive Board for October 5, 1985.

3. Consideration of the complaints in accordance with Rules K-1 and S-1 and of the notice particularly affects Zambia. 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. 8065-(85/132) G/S/TR, adopted
September 4, 1985 1/

Mr. Nimatallah stated that he wanted to put on the record his criticism of those colleagues who had not spoken on the matter before the Board. Their failure to address the issue might give the impression, albeit incorrect, that overdue payments were not considered to be a serious problem.

## 3. GUINEA-BISSAU - 1985 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1985 Article IV consultation with Guinea-Bissau (SM/85/226, 8/9/85). They also had before them a report on recent economic developments in Guinea-Bissau (SM/85/236, 8/19/85).

The Director of the Legal Department reported that a cable had been received from the Guinea-Bissau authorities the previous day, indicating that they intended to discharge their obligations to the Fund by the date due--namely, September 2. However, the payment had not yet been received.

1/ A decision was adopted by the Executive Board on September 20, 1985 to change the date of the meeting from October 5, 1985 to October 10, 1985.

Mr. Doe made the following statement:

The performance of the economy of Guinea-Bissau was not uniform in 1984. While total production recovered from the 1983 recession, the financial imbalances remained large.

From available information, economic activity rebounded from the recession experienced in 1983, growing by nearly 3 percent in 1984 largely on account of an improved contribution from the dominant sector, agriculture. The production of cash crops--mainly groundnuts, palm kernels, and cashew nuts--increased substantially, reflecting better weather conditions and price incentives. Regarding fishing activities, the return to service of some fishing vessels that had been immobilized for repairs has helped boost the catch. In the manufacturing sector, production has been hampered by a variety of factors, including shortage of skilled labor, inputs, and spare parts. To stimulate the contribution of the trade and transportation sectors to GDP, a major effort has been initiated to increase the participation of the private sector. This effort involved notably the transfer of several state-owned retail stores to private sector control and a reduction of the number of commodities subject to price administration.

Producer prices have been increased to reflect cost and to provide incentives to farmers. In particular, the prices of groundnuts, palm kernels, and cashew nuts were increased sharply in 1984. Consumer pricing policy in Guinea-Bissau has been guided by income and cost considerations, among others. Following the exchange rate and the aforementioned producer price actions, the prices of several basic commodities such as rice, cooking oil, sugar, flour, fish, and bread were increased substantially in 1984 followed by another adjustment in the price of rice, cooking oil, sugar, and fish in 1985. Likewise, the prices of petroleum products and electricity tariffs were raised. These rapid upward adjustments, together with the effect of the 1983 depreciation of the peso, were the principal factors contributing to the sharp increase of the GDP deflator registered in 1984.

Fiscal developments in Guinea-Bissau should be examined in the context of a country that acceded to statehood barely 13 years ago, had been devastated by the war, was lacking almost completely a well-trained national civil service and experience managers, while being confronted at the same time with the imperative of meeting a variety of pressing economic and social needs. The evolution of the overall fiscal deficit in Guinea-Bissau reflects to a large extent the pace of execution of development projects aimed, inter alia, at alleviating some of the infrastructural constraints and supplying the domestic market with some basic goods and services. Regarding current spending, the rise in the wage bill reflects essentially adjustments to take into account the effects of the 1983 sharp devaluation of the peso, the increase in prices of basic consumer goods, and the introduction of an income tax. It is notable that, in spite of these adjustments, the total wage bill has decreased in real terms. The exchange rate action contributed to the increase in outlays on materials and supplies. The large increase in capital spending in 1984 was chiefly attributable to essential outlays undertaken to improve the port facility and to equip the capital city with a much needed hotel facility. On the revenue side, the implementation of the tax reform beginning in 1983, together with the effects of the exchange rate adjustment and the increase in domestic prices have led to a near doubling of budgetary revenue in 1984. However, on the whole the fiscal deficit rose.

The financial difficulties of public enterprises placed a major burden on government finances. To alleviate this burden, the authorities of Guinea-Bissau are intent on streamlining and improving the efficiency of these enterprises. In the context of a plan to restructure the parastatal sector, they have now completed the first stage of the reorganization of two state trading corporations. They are, therefore, embarking on the second stage of the reorganization program of these two enterprises with assistance of the European Communities (EC). With the help of the World Bank, they are also undertaking a study of the main public enterprises, with a view to improving their performance.

Developments in the external sector were mixed in 1984. While the trade account deficit narrowed due to a significantly better export performance, the service account deteriorated sharply due to higher interest payment obligations. Grant inflows were also considerably lower. As a result, the current account deficit worsened. The overall balance of payments position, on the other hand improved slightly over 1983 due to an increased inflow of medium and long-term capital. The external debt service ratio declined significantly in 1984 owing to the rapid growth of export receipts. Concerning the exchange rate policy, the flexible approach adopted by the authorities of Guinea-Bissau has led to a depreciation of the currency by more than 250 percent relative to the SDR between December 1983 and June 1985.

For 1985, on the basis of available information, while a further improvement may occur in the production sector, the financial difficulties will persist. Real economic growth is forecast to reach 4 percent, thanks essentially to a better performance of the agricultural, commercial, and transportation sectors. Inflationary pressures are also expected to moderate. The overall fiscal deficit is projected to widen in absolute terms but to fall as a ratio to GDP. The external current account deficit is forecast to rise, as export growth is expected to be subdued while imports would increase more rapidly than in 1984. However, owing to expected sustained inflows of foreign public capital, the overall balance of payments position could improve in 1985. The external debt profile and service ratio are forecast to deteriorate. The authorities of Guinea-Bissau are aware of the generally unfavorable economic and financial outlook of their country. They are concerned about the weak performance of their economy and prospects for a rapid improvement, notably in the public and external sectors, and are monitoring the situation. They appreciate the financial and technical assistance provided by several countries and multilateral organizations and institutions like the Fund and intend to continue to work closely with them to find a durable solution to their economic difficulties.

Mr. Abdallah remarked that he was in broad agreement with the staff analysis and appraisal. The authorities had made strenuous efforts to revitalize the economy and those efforts had borne some positive results. Beset with the lingering ravages of war, recurrent droughts, and generally unfavorable terms of trade, Guinea-Bissau had been faced with serious difficulties despite its considerable productive potential. After declining by nearly 4 percent in 1983, real GDP had grown by about 3 percent in 1984 and was projected to grow by 4 percent in 1985; that turnaround was remarkable despite the setbacks that had been encountered in the fiscal field and the accumulation of payments arrears.

The authorities' recognition of the dominant role of agriculture and the positive measures that had been taken, especially in increasing producer prices by between 76 percent and 114 percent, had had a direct impact in raising output of cash crops, such as groundnuts, palm kernels, cashew nuts, and cotton, Mr. Abdallah continued. The good performance was greatly helped by favorable weather. However, much more could be achieved through the reform of the marketing system and the modernization of the agricultural sector, which was still largely based on traditional methods of production.

The authorities had also been giving attention to the need to establish an appropriate institutional framework to promote an efficient system of production and investment, Mr. Abdallah noted. They had completed the first stage of reorganizing two state trading corporations and had recently embarked on the second stage with the assistance of the European Communities (EC). The World Bank was also providing technical assistance for a study encompassing all public enterprises; he invited the staff representative from the World Bank to report on the progress made so far in that study.

The fiscal sphere remained fairly weak, and it was imperative that the authorities move quickly in tax reform and in improving tax administration, Mr. Abdallah considered. Strenuous efforts must be made to reduce government expenditures because resort to central bank financing had pushed the rate of inflation to over 40 percent and had generated serious inflationary pressures within the economy. The authorities must also bring capital outlays under strict control and avoid nonconcessional foreign borrowing for projects that were not directly productive. Also, parastatal corporations must be made to pay their way or be privatized, if not closed down.

Between December 1982 and January 1985 the peso had been devalued by 250 percent in relation to the SDR, and as a result of that depreciation and the steep increases in producer prices, exports had doubled in value during 1984, Mr. Abdallah commented. Export growth in 1985 was expected to be more modest, while imports were expected to increase more rapidly, leading to a rise in the external current account deficit. He invited the staff to comment on whether the expected lower export performance was due to the diminishing effectiveness of the massive devaluation or the lack of appropriate supportive measures; the staff report suggested the latter, but a more convincing case would need to be made as the authorities were continuing to devalue the peso by 1 percent a week as agreed in December 1983.

The external payments position of Guinea-Bissau continued to be difficult and was likely to remain so until the end of the decade, Mr. Abdallah noted. The country faced a heavy debt service burden that would be a severe constraint on public finances and the balance of payments over the foreseeable future. Therefore, it would have been extremely helpful had the staff included projections of the country's balance of payments over the medium term. While he appreciated the reasons given by the staff for not attempting a more precise and detailed quantification of the medium-term prospects, that task would prove even more difficult if left to the authorities alone. Such projections were essential to planning and helpful to donors and creditors. Therefore, despite the uncertainties and statistical weaknesses, the staff should produce a medium-term forecast.

Based on recent developments, Guinea-Bissau was facing an exchange crisis that did not permit a significant easing of restrictions on payments and transfers for current international transactions, Mr. Abdallah observed. The relaxation of import controls, which the staff favored, would in the present circumstances be unsustainable and would have to be reversed fairly quickly. It was important that Guinea-Bissau have import policies it could live with rather than periods of relaxation of trade and exchange policies followed by foreign currency shortages and import compression. In concluding, he supported the proposed decision.

Ms. Lundsager recalled that during the previous consultation with Guinea-Bissau (EBM/84/128, 8/27/84), her chair had supported the request for a first credit tranche purchase on the grounds that substantial actions were being taken by the authorities. Indeed, a number of measures had been implemented, including exchange rate and pricing adjustments that had led to increased official production and exports. Nonetheless, during 1984 the overall economic situation had deteriorated further. The preliminary consideration of aspects of the international monetary system. fiscal deficit had reached 29 percent of GDP, while the deficit on the current account of the balance of payments had reached 25 percent of GDP and was projected to increase to 32 percent in 1985. Those ratios projected to reach 135 percent of GDP by year end, and short-term debt would probably exceed 20 percent of GDP. The debt service ratio was increasing dramatically and would reach almost 60 percent in 1985.

Those statistics indicated that the situation was clearly untenable, Ms. Lundsager continued. External arrears were increasing rapidly, and the authorities were continuing to rely on wide-ranging trade and exchange restrictions. She was, however, encouraged by the staff's comment on Guinea-Bissau's overdue financial obligations to the Fund. Understandably, the authorities wished to emphasize economic development, but development could not progress satisfactorily in the face of such large financial imbalances. For that reason, the capital budget should be re-evaluated, carefully assigning priorities to projects, and accompanied by strict accounting for both capital outlays and future maintenance expenditures. World Bank assistance in that area would be most appropriate to evaluate both the absorptive capacity of Guinea-Bissau and the concessional financial flows--including its own--that could be expected. Such analysis could lead to a rationalized investment program that could promote sustainable growth and development.

Meanwhile, stricter control over the current budget would be required, Ms. Lundsager remarked. While current expenditures had declined to 21 percent of GDP, further declines would be necessary if Guinea-Bissau's development objectives were to be met. In particular, the size of the civil service should be contained, with a view to reducing government expenditures and encouraging labor to seek private sector employment.

The authorities appeared to remain interested in promoting growth through the private sector, Ms. Lundsager observed. To that end, she urged faster implementation of public enterprise reforms, including continued privatization of certain enterprises, especially marketing. In particular, the authorities should avoid actions that crowded out private sector competition in marketing. The World Bank stood ready to assist in the reform effort, and the Guinea-Bissau authorities should take advantage of its technical expertise and expeditiously implement the recommended actions.

With growing monetization of the economy, an increasing role for financial savings was emerging, and depositors appeared to be aware of the impact of inflation on returns on deposits, Ms. Lundsager noted. She enhance the national savings rate. She welcomed the authorities' willingness to adjust the exchange rate, which had resulted in a substantial depreciation of the peso. Yet, with the parallel market rate some three times the official rate, additional depreciation of the official rate was clearly required. Those measures would support the general orientation of the authorities' development effort by promoting exports and strengthening the balance of payments, thus reducing the need for commercial borrowing.

Finally, improvements in the statistical base would enhance the policymaking capability of the Government, and she agreed with Mr. Abdallah that some medium-term projections, however tentative, could be useful to the authorities, Ms. Lundsager concluded. The authorities should continue to utilize technical assistance provided by the Fund, the World Bank, and other institutions. She supported the proposed decision and urged the authorities to regularize their debt service payments so as to remain current on their financial obligations.

Mr. Doe, responding to a question by Mr. Nimatallah, stated that the previous day, instructions had been given to a bank to make the necessary arrangements for a repurchase of about SDR 230,000. He understood that the staff was attempting to obtain information from the correspondent bank that the funds had been released.

Mr. Nimatallah remarked that the reported repurchase showed that the authorities were trying hard to meet their obligations to the Fund, and they should be commended for their efforts. He therefore supported the proposed decision. The authorities should also concentrate on reducing inflation and increasing production, especially by reforming the parastatals to improve their performance and enhance their productive capacity.

The summary of IDA operations in the staff report indicated that approximately $8.1 million of an emergency import credit had not yet been disbursed, Mr. Nimatallah observed. He urged the authorities to make use of that credit to increase imports in order to enhance production of goods and services. Increasing productivity while controlling expenditure would help to contain and reduce the rate of inflation.

The staff representative from the African Department noted that although the staff report had indicated that a relatively modest increase in exports in 1985 was expected, the level of exports might, in fact, be lower than in 1984 for several reasons. First, the increase in 1984 should be adjusted to account for the selling of stocks that had been accumulated at the end of 1983. Thus, instead of having doubled, exports would have increased by about 80 percent in 1984--which was still a substantial increase. For 1985, the staff had expected an increase of output channeled through official markets. However, that had not occurred, perhaps because the measures that had been adopted to increase producer prices at the beginning of 1985 had not been adequately implemented. Also, the intermediation margins had not been sufficient to allow private sector participation in transporting the crops to the state enterprises. Finally, the price of groundnuts had declined significantly from about $450 to about $320 per ton.

Although recognizing the need to assess the medium-term outlook, the staff considered that the statistical base was so weak that the caveats required would limit the usefulness of any forecast, the staff representative from the African Department concluded. Nonetheless, the staff would make additional efforts in the future to provide a more detailed analysis of the medium-term outlook.

The staff representative from the World Bank stated that the Bank would review that week the draft terms of reference for the state enterprise survey, which had been prepared by a consultant who had visited Guinea-Bissau in July. The terms of reference would be sent to the authorities immediately, and a Bank mission was expected to arrive in Bissau on September 27 in order to reach agreement with the Government on the terms of reference so that the Bank could proceed to invite proposals. It was hoped that the study could begin at the latest in early November. The Bank was also planning to conduct an investment review in December, for which the September mission would be preparing the terms of reference. The Bank had also proposed possible collaboration with the Fund in that review.

The undisbursed amount of the emergency import credit was at present about $6 million, the staff representative from the World Bank reported. However, almost the entire amount had been committed through agreements to reimburse commercial banks in accordance with Bank procedures.

Mr. Doe said that he would convey to his authorities the observations made by Executive Directors, particularly the need for fiscal and external adjustment. He requested that the Fund view favorably any requests received from the authorities for a joint Fund-Bank mission to review Guinea-Bissau's investment program.

Mr. Nimatallah remarked that when there were changes in figures in staff reports, they should be reported at the beginning of the discussion. Also, it would be helpful if a country map were included in the appendices on basic data.

The Chairman agreed that revisions to the staff paper should have been reported at the outset of the discussion. Also, the staff would be looking into Mr. Nimatallah's proposal to include a country map in staff reports.

The Chairman then made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal in the report for the 1985 Article IV consultation with Guinea-Bissau. They noted that progress had been made toward correcting price distortions and reducing the severe external and internal imbalances during 1984, under a program supported by a first credit tranche purchase. Directors welcomed the initial steps taken by the authorities, particularly in the areas of exchange rates and producer prices, which had resulted in a doubling of the value of recorded exports and an encouraging increase in economic activity. Concern was expressed, however, about the slow pace in effecting needed institutional reforms with respect to the liberalization of the marketing system, the reorganization of state enterprises, and the improvement of the statistical base. Growing overall fiscal and external deficits and a further accumulation of external payments arrears were also a cause for serious concern.

It was stressed that the level and composition of public investment should be designed to achieve higher levels of output and exports of agricultural products, with due account being given to the recurrent costs and the external debt service effects of those investments. In this connection, the authorities were encouraged to continue to work closely with the World Bank with regard to investment policies, the reform of public enterprises, and agricultural producer price policies.

Directors emphasized the need to adopt measures to correct existing distortions and to improve the weak fiscal position. It was considered particularly important that efforts be accelerated and intensified to reorganize the state enterprises engaged in trading activities; to increase the scope for private sector activities; to maintain price incentives in the agricultural sector; to improve tax collection and the control of current and capital expenditures; to implement an exchange rate policy that will ensure the competitiveness of the country's exports; to review the structure of interest rates so as to promote the growth of private financial savings; and to avoid borrowing abroad on nonconcessional terms, given the serious debt situation of the country.

Directors urged Guinea-Bissau to ensure the timely discharge of obligations to the Fund. Perseverance in implementing adequate economic and financial policies would contribute to tackling Guinea-Bissau's economic and financial difficulties and would encourage donor countries to provide debt relief and the additional aid on which the economy depends.

It is proposed that the next Article IV consultation with Guinea-Bissau be held on the standard 12-month cycle.

The Executive Directors took the following decision:

1. The Fund takes this decision relating to Guinea-Bissau's exchange measures subject to Article VIII, Section 2, and in concluding the 1985 Article XIV consultation with Guinea-Bissau, in the light of the Article IV consultation with Guinea-Bissau conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Guinea-Bissau continues to maintain restrictions on payments and transfers for current international transactions, including restrictions that give rise to external payments arrears, and a bilateral payments agreement with a Fund member, as described in SM/85/236 (8/19/85). The Fund encourages Guinea-Bissau to pursue policies that will permit the elimination of external payments arrears and the reduction of reliance on other exchange restrictions and to terminate the bilateral payments agreement with a Fund member.

Decision No. 8066-(85/132) G/S/TR, adopted
September 4, 1985

## 4. INTERIM COMMITTEE - AGENDA

The Executive Directors considered the provisional agenda for the Twenty-Fifth meeting of the Interim Committee, including annotations relating to the format of the meeting (EBD/85/215, 8/19/85).

Mr. Nimatallah observed that it had been suggested that Item 3, the World Economic Outlook, and Item 4(a), the Question of Allocation of SDRs, be considered during the morning session, and that Items 4(b), The Question of Access Limits for 1986, 4(c), The Use of Trust Fund Reflows, and Item 5, Preliminary Consideration of Reports on the Functioning of the International Monetary System, be taken up in the afternoon session. Since Items 3 and 5 had more in common than Items 3 and 4 and would command a greater part of the communiqué, he proposed that they be discussed during the morning session. The Reports by the Managing Director subsumed under Item 4 could then be addressed during the afternoon session.

The title of Item 4 was too general, Mr. Nimatallah remarked. He proposed that it be changed to read: "Reports by the Managing Director on Policy Issues Considered by the Executive Board." In addition, Item 4(c) should read: "Use of the Trust Fund Reflows."

Mr. Kafka noted that the debt problem had not been included in the provisional agenda. His authorities considered that it would be helpful to mention that issue either as a subitem under the World Economic Outlook or in a footnote indicating that it would be considered in connection with the discussion on the world economic outlook and the preliminary consideration of reports on the international monetary system.

He agreed with the suggested format that provided for two plenary sessions and the usual attendance limits--the Committee member, seven associates, and the Executive Director--Mr. Kafka commented. However, the attendance limits, which had been rigidly enforced at the previous Interim Committee meeting, had not been similarly enforced at the Development Committee meeting. He hoped that similar procedures would be followed for both Committees at their forthcoming meetings and that the attendance rules would be applied in a liberal manner.

Mr. Pérez stated that his chair favored more generous rules concerning attendance than had been applied at the previous meeting of the Committee, particularly for multicountry constituencies, since the Interim Committee would meet prior to the Annual Meetings of the Board of Governors, and it was likely that all Governors and their Alternates would have a strong interest in attending. To achieve an appropriate work environment while also allowing for greater attendance, entry could be restricted to those wearing color-coded badges--as had been done at the restricted session of the April meeting. In any event, the same rules on attendance should apply to both the meetings of the Interim and Development Committees.

Like Mr. Kafka, he was concerned that the debt problem had not been mentioned in the provisional agenda, Mr. Pérez continued. It would be appropriate to refer to that topic in connection with a discussion of the world economic outlook. Failure to mention that important issue would give the mistaken impression that the problem was no longer considered to be important or urgent. On the contrary, the debt problem was far from being solved and a downward trend of the world economy in 1985 as well as forecasts for 1986 raised some doubts about the feasibility of maintaining the conditions needed to cope with the debt problem. Also, since the problem of access limits was closely linked to the future course of the world economy and the external debt problem, the question of access limits for 1986 could be taken up together with the world economic outlook in the morning session; the question of SDR allocations could be addressed during the afternoon.

Mr. Rye said that he had no difficulties with the provisional agenda but could support the changes proposed by Mr. Nimatallah. His constituency also welcomed the return to the traditional format for the morning and afternoon sessions, which made the participation of multimember constituencies somewhat easier. However, if attendance limits were strictly applied, he agreed with Mr. Kafka and Mr. Pérez that considerable difficulties could arise.

It was not clear at present whether interventions in the afternoon were to be limited to seven minutes as was proposed for the morning session, Mr. Rye continued. In his view, such a limitation raised difficulties in dealing with issues that required reaching an agreement. Also, could any guidance be given on what was meant by "preliminary consideration" of the reports of the Group of Ten and the Group of Twenty-Four? Obviously, such consideration might be procedural or involve substantive discussion.

Mr. Polak said that he understood that it was the Chairman's intention that the items to be considered during the morning session should be addressed in a single intervention lasting no more than seven minutes. The items to be considered in the afternoon would be discussed and decided upon individually. The preliminary consideration of the reports of the Group of Ten and the Group of Twenty-Four would probably be largely procedural, because there had not yet been any discussion of those reports in the Executive Board. Nonetheless, Ministers would be free to address that subject as they wished.

Mr. Nimatallah remarked that addressing several items in separate interventions had proven extremely time consuming in the past. It seemed preferable to follow the same format in the afternoon session as had been proposed for the morning session.

The Chairman remarked that the question would have to be decided by the Committee Chairman. However, he wished to point out that Ministers and Governors would have an opportunity to discuss over lunch the matters to be taken up during the afternoon session.

The Secretary noted that, the Chairman expected that the draft communiqué would be discussed over dinner following the afternoon session.

Mr. Jayawardena observed that the provisional agenda was comprehensive but that some aspects required clarification. Like Mr. Rye, he wondered how the preliminary consideration of the reports on the functioning of the international monetary system would be. He hoped that the intention was not merely to table the reports or refer them to the Fund or some other body for further study. In his view, an effort should be made to establish some modalities for tackling the issues raised in the reports, some of which--the role to be played by the Fund, the World Bank, and regional banks, as well as the transfer of resources and the debt problem--pertained to both the Interim Committee and the Development Committee.

To ensure that the reports received full consideration by both Committees, he proposed that copies be sent to the Development Committee as well, Mr. Jayawardena added. Moreover, it was highly desirable that the reports be considered by a joint committee of Ministers of the Group of Ten and the Group of Twenty-Four. The modalities could be determined later. Finally, to perform background work and conduct studies of the issues raised in the reports, a joint Fund-Bank support staff might be needed.

He agreed with Mr. Kafka that the agenda should mention the debt question, perhaps as a subitem of the World Economic Outlook, Mr. Jayawardena concluded.

Mr. de Maulde said that he too would appreciate some clarification of what was meant by "preliminary consideration of the reports on the international monetary system". As many high-level officials would be present at the forthcoming meeting, he expected that his authorities would welcome the opportunity to address the issue substantively. Further, he agreed with Mr. Kafka that the debt problem should be mentioned under Item 3. Ministers could be expected to address that issue and the appropriate time for discussing it should be clearly pointed out.

Unlike most of his colleagues, he would prefer an informal afternoon discussion as introduced at the April 1985 meeting, Mr. de Maulde commented. If that practice was not feasible at the forthcoming meeting, the Committee should revert to it for the spring 1986 meeting.

Mr. Grosche said that he had no difficulty with the provisional agenda. He appreciated the additional information provided by Mr. Polak on the format of the meeting; however, he considered that the informal discussion at the previous meeting had been appropriate and helpful.

The question of access limits should be addressed in the morning session together with the question of the allocation of SDRs and the world economic outlook, Mr. Grosche proposed. The afternoon session could then consider the use of Trust Fund reflows and the reports on the international monetary system. While the debt problem would certainly be on the minds of Committee members in addressing all those issues, it would not be useful to single it out on the agenda.

Mr. Joyce remarked that he was certain that Ministers would address the debt problem, presumably in connection with the world economic outlook. Therefore, it would not be necessary to include the issue as an agenda item. In discussing Item 5, Ministers would probably accomplish little more than to indicate how the reports should be dealt with in coming months; primarily a procedural question, it properly belonged to the quick decision-making track of the afternoon session.

He questioned the feasibility of separate interventions for each of the questions to be considered in the afternoon session, Mr. Joyce remarked. The Chairman would undoubtedly want to consider ways of facilitating an agreement on the separate issues, possibly by summing up the positions as he saw them.

He would prefer to revert to the April 1985 format for the spring 1986 meeting of the Committee, Mr. Joyce continued. He also favored restricting attendance to seven delegates and urged that the same limit be more strictly enforced at meetings of the Development Committee.

Mr. Clark said that he had no difficulty with the provisional agenda as it stood but was prepared to accept the suggestions made by Mr. Grosche. In his view, a specific reference to the debt problem was neither needed nor particularly helpful. That issue would clearly be on the minds of members when considering the issues before the Committee.

The proposed format for the meeting was acceptable, but he favored the suggestion that members address all items under consideration in one intervention at each session, Mr. Clark added. Also, the format of the previous meeting had proved helpful; he would be willing to revert to it for the spring 1986 meeting of the Committee. On attendance, he endorsed the comments of Mr. Joyce.

Mr. Salehkhou pointed out the word "improvement" had been inadvertently omitted from Item 5, which as it stood referred only to the report of the Group of Ten. He welcomed the return to the practice of two plenary sessions with full participation by delegates. Finally, he noted that the provisional agenda was being considered at a late date; in the future, more time should be allowed for consideration of the provisional agenda--perhaps as much as two months--so that Executive Directors had sufficient time to propose new items or major changes that might entail further work by the staff or Board consideration.

Mr. Doe remarked that his chair preferred that all items proposed for the afternoon session be addressed in one intervention. As for attendance, the rule of one member plus seven associates should be flexibly applied, bearing in mind the constraints on multicountry constituencies.

Mr. Nebbia said that he supported Mr. Kafka's proposal to place the debt issue on the agenda as a separate item. On Item 5, members might wish to undertake a substantive discussion of the reports on the international monetary system since the reports had been circulated well in advance for their consideration. He agreed with Mr. Salehkhou that the item should mention not only the "functioning" but also the "improvement" of the international monetary system.

The policy on attendance at Interim and Development Committee meetings should be uniformly enforced, Mr. Nebbia remarked. Otherwise, it would be difficult for him to explain to his authorities the more lenient policy applied to meetings of the Development Committee.

Ms. Bush remarked that she had no problem with the provisional agenda and would support it as it stood. There was no need to include the debt problem as an agenda item or to flag the issue by a footnote; members would have ample opportunity to address the matter during their discussion of the world economic outlook.

Mr. Fujino said that he supported the provisional agenda as drafted. As for the format of the afternoon session, he was concerned that addressing each item separately might prove cumbersome. While he had some sympathy for Mr. Grosche's suggestion, it would be up to the Chairman to determine the best format.

Mr. Zhang remarked that he supported the provisional agenda, but agreed with Mr. Kafka that the debt problem should be included as a subitem under the world economic outlook.

Mr. Ismael said that he had no difficulty with the provisional agenda as it stood.

Mr. Polak remarked that it was not expected that every member would wish to address each subject in prepared statements, but rather that the discussion would consist of give and take. Also, it would be very difficult to address three unrelated subjects in a single intervention. Perhaps the question of access limits could be moved to the morning session with members indicating whether they favored high or low limits; differences of view could then be settled over dinner. The use of Trust Fund reflows and the functioning of the international monetary system could then be dealt with seriatim.

Attendance at the afternoon session had been increased from one member plus four associates at the previous meeting to one member plus seven associates, Mr. Polak noted. That rule ought to be strictly enforced. In describing the afternoon session as a give-and-take discussion, he was suggesting that members would exchange views before taking positions on a question. For example, he expected that there would be extensive discussion on the Trust Fund and perhaps some original proposals. Such a format would allow a degree of informality and members would not be obliged to speak on a subject if they had nothing new to contribute.

Ms. Bush questioned whether an informal give-and-take session would be as productive as a formal one with prepared statements and positions.

Mr. Nebbia said that he understood from Mr. Polak's explanation that during the afternoon session, members would present a formal statement if they wished to contribute to the subject and other members would have an opportunity to respond or raise questions. That format would introduce a degree of informality which he believed would be useful.

Mr. Finaish remarked that as a representative of a multicountry constituency, he would urge some flexibility on the matter of attendance. Also, he preferred that the items to be discussed in the afternoon session be addressed in a single intervention. On the preliminary consideration of reports on the international monetary system, he considered that substantive discussion might not yet be possible, but perhaps the word "preliminary" should be dropped; members could then address the topic as they wished.

Mr. Rye considered that the afternoon session should retain some degree of formality. Multicountry constituencies, in particular, might be reluctant to enter into a discussion having no set positions. To the extent that informality could be introduced, it would be desirable.

The Chairman observed that a number of Directors had suggested that agenda Items 3, 4(a), and 4(b) be taken up during the morning session and be addressed in one intervention. On Items 4(a) and (b), he would suggest that the title be changed to "Reports by the Managing Director on Policy Issues Considered by the Executive Board," which clarified the issues without repeating the exact titles of the two reports. Directors had suggested that two interventions be made in the afternoon session on each of the topics "The Use of Trust Fund Reflows" and "Preliminary Consideration of Reports on the International Monetary System."

The Group of Ten had requested the Committee to give its report preliminary consideration as there had been no previous discussion of the reports in the Executive Board, the Chairman noted. The wording was not intended to discourage Ministers from making statements of substance when addressing that item.

Mr. Salehkhou proposed that the item be titled "Review of the International Monetary System."

Mr. Joyce remarked that the review of the international monetary system was an entirely different subject. What was intended was a preliminary consideration of aspects of the international monetary system.

Mr. Fujino remarked that in forwarding the Report of the Group of Ten to the Interim Committee, his Minister had expected that it would receive preliminary consideration at the ministerial level.

Ms. Bush said that since a number of Directors preferred to discuss the question of access limits for 1986 in the morning session, she could support that change in the agenda. However, she still considered that the debt question could be adequately addressed during discussion of the world economic outlook. Thus, she would agree to taking up Item 4(b) in the morning session on the condition that the agenda otherwise remain unchanged.

Mr. Jayawardena asked whether it was intended that Item 4(b) should be addressed in a single intervention. Considering the importance of the question of access limits for 1986, there should be an opportunity for meaningful discussion of that item, which might not be possible given the format for the morning session.

Mr. Polak commented that if the question of access limits were moved to the morning session, the subject could be further discussed at lunch, which meant that it would receive more attention than would be possible if it were included in the exchange of views on other subjects in the afternoon.

The Chairman noted that the inclusion of Item 4(b) in the morning session was acceptable to most Executive Directors. Mr. Nimatallah's suggestion that the title of Item 4 be changed to "Reports by the Managing Director on Policy Issues Considered by the Executive Board" would be conveyed to the Committee Chairman. Moreover, he understood that Executive Directors supported the suggestion to shorten the title of Item 5 to "Preliminary Consideration of Reports on the International Monetary System." On the debt question, a number of Executive Directors had favored a reference to the subject in connection with the discussion of the world economic outlook, while other Directors had indicated that they would not support the specific inclusion of that issue.

Mr. Fugmann remarked that care should be exercised in singling out specific topics for inclusion under general headings. He favored the agenda as it had been proposed, it offered Ministers considerable latitude to speak on items as they so desired.

Mr. Joyce observed that since Ministers might wish to speak on the debt problem--probably in the context of the discussion on the world economic outlook--Directors could brief their authorities accordingly. If any further reference to the subject was needed, perhaps the Chairman, in introducing the provisional agenda in Seoul, could so indicate.

Mr. Nimatallah remarked that as there had been no Board discussion or staff paper on the debt problem, he did not favor including it as a separate item but would advise his Minister that the subject would be considered in the context of the discussion on the world economic outlook.

Mr. de Maulde said that he did not accept the view that issues that had not been discussed by the Executive Board or been the subject of staff studies should be excluded from the agenda of the Interim Committee.

Mr. Kafka remarked that when he reported to the members of his constituency, he would have to tell them that for reasons that were totally incomprehensible to him, there seemed to be a clear reluctance to mention something on the agenda which everyone knew was going to be discussed.

Mr. Joyce observed that the debt problem would undoubtedly be discussed in connection with the world economic outlook, together with other issues, such as protectionism and trade negotiations. It would be inappropriate to single out one particular, albeit perhaps the most important, aspect of the discussion.

The Secretary noted that the debt problem had been mentioned in the preliminary agenda for the April 1985 meeting of the Interim Committee. To his recollection, it had not been mentioned in earlier agendas in recent years.

Mr. Finaish said that he agreed in principle with Mr. Kafka. He expected that Ministers would address the debt problem, but its inclusion as a separate item on the agenda might raise the expectation that clear conclusions would be forthcoming. Hence, he did not favor its addition.

The Chairman observed that the debt problem was a vast subject that required considerable study and Board consideration so that specific topics or recommendations for discussion could be made. He considered that Mr. Joyce's suggestion that the Chairman indicate at the outset of the session that the debt problem might most appropriately be dealt with under Item 3, World Economic Outlook, would meet Directors' concerns. Of course, the Committee Chairman had the final responsibility for the proposed agenda.

Mr. de Maulde observed that as Mr. Joyce's proposal appeared to accommodate most concerns, he was prepared to accept it.

Mr. Polak, responding to a concern expressed by Mr. Nebbia, remarked that he was sure the Chairman would be very happy to indicate at the outset of the meeting that although the debt problem had not been mentioned separately on the agenda, Ministers who wished to address that subject might do so in the context of their comments on the world economic outlook.

The Chairman remarked that he would convey the comments and suggestions of Executive Directors to the Chairman of the Interim Committee.

The Executive Board agreed to submit the provisional agenda, amended in the light of the discussion, to the Chairman of the Interim Committee.

Adopted September 4, 1985

APPROVED: May 15, 1986

LEO VAN HOUTVEN
Secretary