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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/164

3:00 p.m., November 12, 1985

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

Executive Directors	Alternate Executive Directors
	L. K. Doe, Temporary
C. H. Dallara	
J. de Groote	
	S. de Forges
M. Finaish	
	M. Sugita
G. Grosche	
	Jaafar A.
	J. R. N. Almeida, Temporary
	M. Foot
H. Lundstrom	
M. Massé	
	A. Abdallah
	P. E. Archibong, Temporary
F. L. Nebbia	
Y. A. Nimatallah	J. E. Suraisry
P. Pérez	
J. J. Polak	J. de Beaufort Wijnholds
C. R. Rye	
G. Salehkhou	O. Kabbaj
A. K. Sengupta	A. S. Jayawardena
S. Zecchini	N. Coumbis
	Jiang H.

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Corrected: 9/10/86

Also Present

Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director. African Department: A. D. Ouattara, Director. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; G. Belanger, J. T. Boorman, S. Kanesa-Thasan. External Relations Department: H. O. Hartmann. Legal Department: F. P. Gianviti, Director Designate; J. G. Evans, Jr., Deputy General Counsel; W. O. Holder, S. A. Silard. Middle Eastern Department: J. G. Borpujari. Research Department: R. R. Rhomberg, Deputy Director; A. Crockett, Deputy Director; M. Goldstein. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer. Western Hemisphere Department: S. T. Beza, Associate Director. Bureau of Computing Services: W. N. Minami, Director. Bureau of Language Services: A. J. Beith, Director. Bureau of Statistics: M. S. Gill. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: G. R. Castellanos, L. P. Ebrill, G. Nguyen, P. Péterfalvy, G. W. K. Pickering, I. Puro, M. Z. M. Qureshi, E. M. Taha, D. C. Templeman, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: I. Angeloni, J. de la Herrán, J. J. Dreizzen, R. Fox, S. Geadah, V. Govindarajan, L. Hubloue, H. Kobayashi, K. Murakami, J. E. Rodríguez, A. Bertuch-Samuels, A. J. Tregilgas, H. van der Burg, E. L. Walker, B. D. White.

1. WORK PROGRAM

The Executive Directors continued from the previous meeting (EBM/85/163, 11/12/85) their consideration of the Managing Director's statement on the work program until the April 1986 meetings of the Interim and Development Committees.

Mr. Zecchini said that he could generally support the work program, which provided a useful summary of the tasks that the Interim Committee had asked the Executive Board to accomplish before the spring 1986 meetings of the Interim and Development Committees. The proposed schedule and organization of work seemed appropriate, in spite of the heavy concentration of Board meetings in the month of February.

Following the outline of topics in the Managing Director's statement, Mr. Zecchini observed that the proposed paper entitled "Review and Assessment of the System of Floating Exchange Rates" should encourage a lively Board discussion, especially since the views on the topic in the G-10 and G-24 reports differed substantially. The matter of floating rates had been covered in a seminar on January 30, 1984, on the basis of a paper entitled "The Exchange Rate System: Lessons of the Past and Options for the Future," and it seemed appropriate that that paper and seminar discussion should form the basis for further analysis by the staff. He recalled that the issue of target zones had been touched upon briefly in the earlier discussion as one of the conceivable "options for the future." Since then, target zones been considered in the G-10 report and explicitly supported in the G-24 report. Also, new developments touching on the issue had emerged following the G-5 meeting in late September 1985. It was thus appropriate that the Board should reflect on target zones, although it remained questionable whether it was more appropriate to devote a section of the general paper on exchange rates to the subject or to cover it more fully in a separate document.

On the matter of international liquidity, Mr. Zecchini noted that his authorities attached considerable importance to research on the role of the SDR in the light of recent changes in the international financial system. After a number of years in which the expansion of the SDR had been nearly frozen, it was time to take a long-range look at its future, and he hoped for a thorough and unbiased debate on the three broad topics proposed for discussion.

The role of the Fund was the most wide-ranging of the subjects touched upon in G-10 and G-24 reports, Mr. Zecchini continued. It encompassed many different issues on which it was difficult to set priorities for discussion. It should be remembered that part of the relevant ground had already been covered in the recent discussion on enhanced surveillance and monitoring procedures in which substantial and precise guidance had been provided to management and staff. Given developments during and following the recent Annual Meetings in Seoul, Directors might find it useful to expand their consideration of the topic of Fund-Bank collaboration, particularly in the area of conditionality. To some extent, that matter would be covered in the discussions scheduled for January 22, 1986 on the use of Trust Fund resources; however, it would be useful to look at the issue of Fund-Bank collaboration in more comprehensive and complete terms in the context of discussions on the so-called Baker Plan for dealing with the debt problem. In addition, the issue of overdue obligations should continue to receive careful attention, with the focus on facilitating new access to credit for those countries in serious financial difficulties but showing the determination to adopt realistic adjustment policies.

Like others, he felt that it was appropriate to combine the discussion of a specific paper on international debt with the spring 1986 World Economic Outlook exercise, Mr. Zecchini commented. Since the issue of foreign debt was part of the outlook, particularly in its medium-term scenarios, it might be preferable to hold a single discussion on the topics rather than to look at them separately in a two-day discussion as had been proposed. Clearly, the second day of discussion could still be utilized if the first had not been sufficient to exhaust all interventions; but if the two discussions were held separately, there would necessarily be a great deal of overlap in many interventions.

Welcoming the indication that the annual review of experience with upper credit tranche arrangements and of the guidelines on conditionality would focus on the issue of program design, Mr. Zecchini said that he had noted that the preparation of the paper on the theory of program design had been considerably delayed. While the timing of the preparation of papers was understandably heavily dependent on the work load of the staff, he found it odd that some other studies--such as that on Islamic banking and one on exchange rate management in developing countries--had been inserted in the meantime and were currently expected to be issued no later than the paper on the theory of program design. Since all three papers were the responsibility of the same department and probably the same division, he wondered whether reasons other than staff work load might have suggested a change in priority. At the December 30, 1985 meeting on conditionality, the focus would apparently be limited to program design in planned economies, based on a paper which was intended for issuance during the second half of December.

Finally, on administrative matters, Mr. Zecchini remarked that he had some difficulty in reconciling the proposal to discuss before the end of 1985 a paper regarding a possible Fund computer center with the April 1986 scheduling of the broader related report on various aspects of collaboration between the Fund and Bank in the field of statistical data collection, storage, and processing. The relationship of the issues in his view demanded that coherent decisions be taken together in three areas: future arrangements for computing services in the Fund; possible collaboration with the World Bank; and the purchase or rental of new space for offices or other purposes.

Mr. Rye stated that he had no difficulty endorsing the proposed work program and the timing of the various key Board meetings. The program was clearly a heavy one, a fact that should be borne in mind in considering suggestions, however meritorious, for additional work. In response to the Managing Director's request for guidance on the priorities that should be accorded those elements of the G-10 and G-24 reports relating to particular features of the Fund's work, he believed that the focus should be on the exchange rate system, surveillance, international liquidity and the SDR, and the debt problem. Detailed consideration of the effects on particular policies and practices of the Fund should await the outcome of those discussions. Some of the more important operational questions would be the focus of the Board's review of experience with upper credit tranche arrangements and the guidelines on conditionality, a review that would appropriately concentrate on the issue of program design and the matter of prolonged use of Fund resources. In that context, some preliminary consideration would necessarily have to be given to important aspects of the role of the Fund not addressed directly elsewhere in the Board's examination of the G-10 and G-24 reports.

On the program of studies on the SDR, Mr. Rye said that he was attracted to Mr. Dallara's suggestion that the paper on the implications of changes in the international monetary system for the role of the SDR should be discussed before the paper on the potential role of the SDR in contributing to the stability of the system and the comparative analysis of the functioning of the SDR and the ECU. On the Trust Fund, he wished to associate himself with the remarks made earlier by Mr. Polak. Finally, he was happy to note that a comprehensive review of the Fund's Annual Report would be undertaken by the staff. In recent years, the status of the Annual Report had fallen to the point at which it was little more than a reference document; he hoped that the review would lead to changes that would restore the Annual Report to its former eminence.

Mr. Salehkhou observed that the Managing Director's statement on the work program showed the need for determined action by the Board and the management of the Fund to deal with an acutely difficult global economic environment. World trade was contracting and adjustment efforts by developing countries were being offset by declining commodity prices and by rising protectionism in the industrial countries. As a result, the debt situation was worsening rather than abating. The proposed work program, while heavy, seemed to address adequately both the requirements and the urgency of the situation. In view of the particularly heavy work load relating to policy issues, he hoped that consideration by the Board of country items could be as evenly distributed as possible over the period so that the Board's attention would not be distracted by an unnecessary bunching of items.

The indication that both the G-10 and G-24 reports on the international monetary system would form the basis of the staff's work over the coming months, was welcome Mr. Salehkhou said. While broadly supporting Mr. Nebbia's remarks on the work relating to the two reports, he would appreciate some clarification about which topics it was proposed to cover. In the May 29, 1985 discussion on the work program, he had noted that the topics listed in the Managing Director's statement, while all fundamental, had by no means been exhaustive, and he had indicated that other issues such as the decision-making process in the multilateral institutions, the role of development and financial institutions, the functioning of the capital and commodity markets, and other equally important topics should be addressed "at the same time in a comprehensive and integrated approach to the whole problem." He would welcome comments from the staff on the feasibility and timing of studies on those issues.

Any report on the subject of surveillance should focus on the ways and means of enforcing surveillance over major industrial countries, Mr. Salehkhou considered. The developing countries, particularly the indebted ones, were already subject to the comprehensive rules on surveillance, and those did not need to be changed; the issue at hand was how to generalize and extend the exercise of surveillance over all countries. However, he had doubts about the feasibility of such extended coverage, especially in view of recent official references to "mutual surveillance" and major policy decisions on exchange rates as agreed by some member countries without consulting the Fund.

On SDRs, Mr. Salehkhou reiterated both his commitment to the objective of making the SDR the principal reserve asset in the system and his conviction that a sizable allocation of SDRs was in order. In that regard, he wondered what purpose new studies would serve, other than to postpone a decision on which a clear majority of the membership agreed.

The various subjects mentioned under the subheading "Role of the Fund" deserved attention by the Board, although there would probably not be sufficient time to address all of them, Mr. Salehkhou continued. His own feeling was that treating a subject not mentioned would be more important than producing further papers on surveillance or SDRs where the technicalities were well known and the problems were related more to a lack of political will. The subject he had in mind was how the Fund could help developing countries devise growth-oriented policies without neglecting the adjustment process. The statement that "Fund policies," "the right policies," or "the adjustment process" led necessarily to sustainable growth had not been substantiated, and it seemed that priority should be given to examining concrete ways in which growth and adjustment could be achieved.

His chair continued to be deeply interested in the World Economic Outlook exercise, Mr. Salehkhou remarked, and he welcomed the intention to include as topics for the next world economic outlook paper such vital issues as commodity prices, macroeconomic policies of major countries, protectionism, and exchange and interest rates. The World Economic Outlook exercise was an evolving process, and it would be helpful if the Executive Board were kept informed through appropriate means of that evolution in the period between the biennial discussions of the World Economic Outlook. The information he was requesting could be provided every month or at least quarterly. In that regard, he also proposed that the papers for the next World Economic Outlook exercise should contain a comparative analysis of actual outcomes vis-à-vis earlier projections.

It would be appropriate if the papers on the Fund's policy on enlarged access and the limits on access under that policy in 1986 paid special attention to the difference between actual and nominal limits on access, Mr. Salehkhou remarked. On the annual review of experience with upper credit tranche arrangements, which was to focus on program design, he welcomed the scheduling of Board consideration of a staff study on the design of adjustment programs in planned economies. However, the scheduled date for that discussion was not convenient for him, and he joined those who had proposed moving the discussion to another date. Finally, he was grateful for management's encouragement and for the staff's efforts to prepare studies on the theoretical basis of Islamic banking. Like any new system, the Islamic banking system could have beneficial effects as well as potential difficulties. The failure of what had been hastily devised and claimed as an Islamic system in one country, and which had been adopted as a political move for a short period before the change in government, could not be blamed on the lack of effectiveness of a genuinely Islamic banking system as some had claimed on different occasions.

Mr. Pérez said that he was in general agreement with the Managing Director's statement on the work program and could support Mr. Nebbia's suggestions on procedures and methodology for dealing with the matters covered in the G-10 and G-24 reports, particularly his proposals on the debt problem and transfer of resources. The issues contained in the G-10 and G-24 reports were part of that complex entity called the international monetary system, and a separate analysis of those issues, without some overview, could lead Directors to miss some of the linkages and interplay among them. As he saw it, subjects such as the exchange rate system and international liquidity were intrinsically connected; moreover, the surveillance policy and the role of the Fund were crucial elements in any assessment of the efficiency of the exchange rate system. For those reasons, he was in favor of Mr. Nebbia's proposal for a global paper covering the conclusions reached on each particular issue and analyzing the relationships between them. Such a paper should be discussed by the Executive Board before the Interim Committee meeting in April so as to provide Directors with an opportunity to reconsider their initial conclusions on the individual subjects and, perhaps, to analyze aspects of each issue not taken into account in previous discussions. While the proposal involved an increase in the already heavy work load for the staff and the Executive Board, it would in his view improve the work of the Board by allowing for a more complete consideration of topics by the Interim Committee.

In responding to the Chairman's call for guidance on priorities to be assigned to various issues in the work program, Mr. Pérez considered that the real question was less one of priority than of opportunity. Each year the Executive Board was given the opportunity to analyze and discuss the issues of access limits, conditionality, overdue financial obligations to the Fund, and Fund-Bank collaboration. However, the creation of a new facility to provide financing for interest rate increases had not thus far been discussed by the Board, despite the insistence of the G-24 that the matter was an important one. His response to the request of management for guidance on priorities was to place discussion of such a new facility at the top of the list, not necessarily because he attached more importance to that issue than to the others he had enumerated but because an opportunity should be provided for discussing the proposal.

Mr. Grosche, indicating his general agreement with the work program, said that he was inclined to support Mr. Dallara's view that the technical aspects of target zones should be discussed in depth but that the proposed paper on target zones should not be restricted to that subject per se but should dwell as well on the contributions that exchange rate analyses might make to the evaluation of performance and policies. Like Mr. Nimatallah, he believed that the link to surveillance could not be avoided.

The proposed paper on the implications of changes in the international monetary system for the role of the SDR, was welcome, Mr. Grosche continued. Only after considering such a study could the Board proceed to a discussion of the potential role of the SDR in contributing to the stability of the current system.

With regard to the priorities for work under the subheading "Role of the Fund," Mr. Grosche considered that conditionality should be at the top of the list followed by prolonged use of Fund resources, Fund-Bank collaboration, and overdue financial obligations to the Fund. It would probably not be possible before April to consider the other topics mentioned under that subheading.

In the months ahead a number of difficult and challenging topics would need to be discussed, and the staff would necessarily be under great pressure to write the various papers required, Mr. Grosche noted. He would be particularly grateful if those papers could be issued on time or even somewhat earlier than was prescribed by the four-week rule. It would be very difficult for Directors to prepare themselves thoroughly for substantive discussions if the time for preparation were cut short; and it would therefore be most helpful if Directors could begin thinking about the papers in question as early as possible.

Mr. Sugita remarked that, given the time constraints, the Managing Director's proposal for discussing the issues in the G-10 and G-24 seemed reasonable. However, like Mr. Dallara and Mr. Grosche, he felt that too much weight was perhaps being given to the idea of target zones in the study on the exchange rate system. The G-10 Deputies had considered the stability of the exchange rate system in a much wider perspective; and only a few had advocated the introduction of target zones. His own authorities were among those who had considered the idea of target zones not to be a practical one, although they would not deny the usefulness of discussing various proposals for improving the functioning of the exchange rate system. Of more practical importance, however, was the search for possible ways of improving and strengthening Fund surveillance, and he was looking forward to discussions on that topic. Also appropriate was an in-depth review of the role of the SDR; and in line with the position of his chair outlined at the June 1985 discussion of a program of studies on the SDR, he hoped that the review would highlight the development of international money and capital markets over the past 20 years and focus on the changes that had occurred in the assumptions on which the decision to create the SDR had been based.

Taking note of the Managing Director's reference to the "latter part of 1986" in discussing the initiation of work on the Ninth General Review of Quotas, Mr. Sugita said that he nonetheless hoped that the time would be regarded more as a deadline than as a target for the initiation of preparatory work. He welcomed the proposal to hold a Board discussion on the debt problem in conjunction with the World Economic Outlook exercise and considered that the forthcoming Board discussion on international capital markets would provide a good opportunity for Directors to exchange views on the U.S. initiative on debt. Also welcome was the intention that the annual review of experience with upper credit tranche arrangements and of the guidelines on conditionality should concentrate on the issue of program design and the prolonged use of Fund resources.

His chair was looking forward to completion by the Board of the remaining work on Trust Fund reflows so that a decision on that matter could be adopted before the next meeting of the Interim Committee, Mr. Sugita commented. Finally, it was encouraging to note that the job evaluation exercise in the Fund would be concluded shortly and that the report of the Joint Committee on Staff Compensation would be completed by the Board discussion of the 1986 compensation review scheduled for April-May 1986.

Mr. de Forges stated that he too was in broad agreement with the Managing Director's proposed work program, which covered a wide range of questions that the Board had been asked to discuss before the next meetings of the Interim and Development Committees. The proposal to exchange views on the recent U.S. initiative on capital flows to developing countries in the context of the forthcoming discussion on international capital markets was a justifiable one. However, addressing that initiative on short notice in a detailed manner might not be as fruitful an exercise as some would hope, especially since the discussion was scheduled at too early a stage in a very complicated process. On a related matter, he could support the proposed issuance of a paper on the debt situation in conjunction with the next World Economic Outlook exercise.

In general, the projected scheduling of discussions on the international monetary system and the debt problem was a matter of concern to his authorities, Mr. de Forges continued. The Interim Committee had given a mandate to the Board to review the issues covered in the reports of the G-10 and the G-24, and the staff was being asked to produce papers on individual topics for discussion in the Board over the coming months. It would be preferable, in his view, if the staff were given more precise guidelines on the preparation of those papers to ensure that their discussion by the Board was a fruitful exercise. The Executive Board of the Fund was the proper forum for discussions on the international monetary system; if the Board did not fulfill its responsibility to hold such discussions, it was possible that the debate could move outside the institution. To avoid such a development, he was prepared to propose not only that the Executive Board should elaborate on the topics covered in the G-10 and G-24 reports at an early stage but that it should meet far more frequently on those matters in advance of the spring meetings of the Interim and Development Committees. Those meetings could take any form, although he would favor informal sessions or seminar discussions in which new ideas could be explored and on the basis of which the staff could be given appropriate guidance in drafting further papers for discussion. As had been noted by others, the topics for discussion were many and varied, and the Board could hope to begin fulfilling its mandate to tackle them only by beginning very soon.

Mr. Sengupta, remarking that he was in full agreement with Mr. Nebbia's opening statement, observed that the work program outlined by the Chairman was a heavy one, and he would not wish in any way to add to it. However, adjustments could be made in order better to implement the Interim Committee's mandate. The Executive Board had been asked to study the issues raised in the G-10 and G-24 reports to prepare for a substantive consideration of those reports by the Interim Committee at its next meeting. The Chairman's proposal was to cover the four subtopics common to both reports, namely, the exchange rate system, surveillance, international liquidity and the SDR, and the role of the Fund. Of the two subjects covered in the G-24 report but not included in the G-10 report, the Chairman was recommending a discussion of the debt problem but not of the transfer of resources, a matter highlighted by the G-24 as critical to any scheme to improve the functioning of the international monetary system. He fully agreed with Mr. Nebbia that a paper on the transfer of resources should be prepared and discussed.

The manner in which the topics were to be discussed was a matter of concern for his authorities, Mr. Sengupta continued. As he understood it the Interim Committee was not simply calling for a further discussion of the subjects he had mentioned; rather, the intent of the Interim Committee was that the Board should examine the specific proposals on those subjects raised in the G-10 and G-24 reports. In preparing papers on the basis of which the Board could examine the proposals, the staff should consider both the desirability and the feasibility of implementing them. If some of the proposals were found to be impracticable or irrelevant, the staff should say so and should outline its reasons so that the Board could take issue with them if necessary.

The staff was preparing a paper on a review and assessment of the system of floating exchange rates, which he presumed would be written around the themes of the G-10 and G-24 reports, Mr. Sengupta remarked. In that regard, he found it difficult to understand Mr. Dallara's problem with the paper on target zones, especially since it was quite possible that the Fund staff would reach the conclusion that target zones were neither feasible nor desirable. The Group of Twenty-Four had been emphasizing a mechanism for triggering policy coordination among the key-currency countries that need not be allied with any previous targets. Of course, the staff might find even the G-24 proposal not to be feasible, but final judgment should await comprehensive assessment of the various proposals. He would have no objection to postponing the study on target zones for a few months if the work program were considered too heavy, but he saw no reason to drop it entirely. Indeed, as Mr. Nebbia had noted, some subjects or proposals might demand more time for detailed examination by the staff and some might even be taken up after April, a postponement that would still be compatible with the intent of the Interim Committee. For example, issues relating to surveillance and international liquidity should probably not be hurried. The G-24 report had mentioned the formulation of some objective indicators and guidelines of policy coordination among the major industrial countries as part of the multilateral surveillance process, and that proposal went well beyond the current practice of surveillance over exchange rate policies as part of the annual review of surveillance; as such, it might require a longer period for examination. Similarly, while the issue of the international banking system playing the role of a supplier of adequate international liquidity had to be taken up early because of its immediate implications, the question of the SDR's role as a reserve currency or its distribution according to the resource needs of different countries might take more time for fruitful study and could easily be postponed until the summer.

Like Mr. Nebbia, he believed that priority should be given to proposals on the debt problem, transfer of resources, and the role of the Fund, Mr. Sengupta said. A discussion of the detailed proposals on the debt issue as formulated in the G-24 report should be separate from the discussion of the so-called Baker proposal; it could be built upon a Fund study of the debt situation or export credits, as suggested in the Chairman's statement on the work program, but it should consider the detailed suggestions made in the G-24 report.

Two issues relating to the role of the Fund were deserving of special consideration, Mr. Sengupta commented. The first was conditionality, or the nature of Fund programs; the second concerned the effort to find mechanisms for increased financing by the Fund of adjustment programs. The studies on quotas or access should be related to the requirements for Fund financing, which themselves should be tied to the nature of Fund programs. The interrelationships between the two issues had been highlighted in the G-24 report, and he presumed that the paper examining the proposals in the G-10 and G-24 reports would automatically cover those issues.

Once the staff had examined all the proposals in the two reports, it would be useful if the staff could produce a global paper so that the Board, and later the Interim Committee, would have a framework for viewing the relationships among the various issues, Mr. Sengupta considered. In effect, the examination of the proposals in the reports would follow a format similar to that followed for the World Economic Outlook exercise, with a global paper supplemented by a number of supporting papers. Such an approach seemed to be feasible, since most of the studies had already been undertaken in one form or another, by the Fund staff, and all that remained was for the staff to rearrange the studies around the proposals put forward in the G-10 and G-24 reports. The issues that the staff did not have adequate time to study should be flagged for consideration in greater detail at a later date.

If the approach he was recommending was accepted, Mr. Sengupta said, the work program of the Fund would flow in three major streams: a global paper supplemented by supporting papers on the G-10 and G-24 reports; the World Economic Outlook exercise; and a collection of country studies and papers on the budget and other operational matters. A paper would have to be prepared on the use of Trust Fund resources, and another paper--perhaps prepared by the U.S. Administration--should outline the Baker proposals. Finally, on a point raised by Mr. Kafka, if the intention was that some views from experts outside the Fund should be brought to bear on the examination of certain issues in the work program, consideration should perhaps be given to an extension of the Executive Board seminar format, with papers prepared by outsiders. In general, however, he preferred that the Fund staff should prepare the final study for examination by the Board and the Interim Committee.

Mr. de Groote observed that many of the topics in the proposed work program that had not seemed ripe for discussion only a few months previously could now be meaningfully discussed, as the climate for dealing with them had improved. The work program seemed to strike a reasonable balance between what was desirable and what was possible. The Board should of course attempt to resolve the important problems that had been identified, but it might be difficult to deal with them in a comprehensive manner in the limited time available. And an attempt to do so could lead to superficial answers and a loss of the necessary political support. It was thus appropriate that the Chairman had advised moving forward with caution so that the Board did not lose touch with the underlying political agreements needed for the work to remain meaningful. The point was a delicate one, since Directors could, to some extent, influence their governments' fundamental political options; but a drastic revision of the role of the Fund and the SDR would not take place on the basis of convincing staff papers and exchanges of views in the Executive Board. Feedback was required to and from member country authorities, and time would be needed to fully acquaint them with new ideas and options. In that respect, it would be preferable not to set time targets that were too rigid if doing so risked losing what might be achievable.

Not much progress was to be expected unless Fund members showed some readiness to envisage fundamental changes in the system, including possibly amendments in the Articles of Agreement, Mr. de Groote continued. The future role of the SDR and of the Fund itself could not be dealt with as a routine matter or on the assumption that current notions and practices allowed the Board to postpone the required solution. In his view, the Board should devote some time to considering the role of the Fund as a central stabilizing agency and to looking at the SDR as the central reserve asset in a system of managed floating rates, a role that would be enhanced by the notion that intervention was at times required in order to achieve some exchange rate objectives. It was important to look at whether or not the Fund should play a role as lender of last resort and whether or not the role of the SDR should be looked at in terms of the need to introduce an element of safety into the system. Given that intervention was recognized as a legitimate approach, the question arose of whether the market or central bank swap operations would be sufficient to provide all countries with the resources needed for intervening on the exchange market. While those subjects were implicitly included in the program proposed by the Chairman, he would like to see them given particular focus in the Board's discussions.

The proposed approach to the exchange rate system was perhaps too specifically centered on target zones, Mr. de Groote considered. The need for intervention was on occasion recognized; and that might be more important than the idea of target zones themselves. On surveillance, the Board should be careful not to develop theoretical rules that would be difficult to implement. Practical steps toward better surveillance of major industrial countries--steps that could be supported and accepted by those countries--were in his view far more important than the sophisticated elaboration of rules. On other matters, he could support Mr. Polak's request for a further study of the SDR as an instrument for intervention, and in that context he would like to see the staff pay more attention to the specific problems of developing countries. In particular, the staff should look at the possibility of transferring allocations to industrial countries back to the Fund for loans to countries that could not meet their own needs with existing reserves. On the role of the Fund, he could support the list of topics proposed by the Chairman.

It was surprising that no mention had been made of the necessary role to be played by private investment and private capital in dealing with the debt problem, which itself was certainly related to the issue of transfer of resources and liberalization of capital markets, Mr. de Groote commented. The Fund must be careful not to contradict its own objectives. It had announced support for growth-oriented strategies, which would increase the debt of concerned countries. Thought should be given to balancing the effects of larger imports and increases in the debt burden. The role of private capital in that respect could be quite important.

He was still not convinced that two World Economic Outlook exercises were needed each year, Mr. de Groote remarked. That having been said, he was happy that the intention was to include a study on commodity prices in the World Economic Outlook exercise. Commodity price issues should not be viewed in isolation; they were a reflection of the evolution of noninflationary conditions worldwide. The implications for countries producing primary commodities had perhaps not been fully worked out, and the Fund's approach to buffer stock financing might usefully be revised in that regard.

On special staff studies, Mr. de Groote wondered whether the staff might not one day consider producing a paper on what he would call "bilateral commodity transactions." It was well known that a large number of countries were involved in such transactions because they did not have the resources to finance their imports; and to some extent those arrangements were a shortcut through existing financial mechanisms. He was of two minds about the desirability of such transactions: certainly, they helped countries to finance additional imports; on the other hand, they were difficult to reconcile with accepted principles of the Fund. On balance, however, it would certainly be worth examining such novel arrangements. On other studies, he would be grateful if the paper on the design of adjustment programs in planned economies--currently scheduled for December 30--could be moved to mid-January. Then the discussion on the 1985 Article IV consultation with Hungary could serve as a useful foundation for the broader issue.

He was attracted to the idea of a global paper covering the proposals in the reports of the G-10 and the G-24 on the functioning of the international monetary system, Mr. de Groote said. Such a paper would introduce some discipline into the Board's work on the issues it was required to cover. Finally, despite Mr. Nebbia's argument that the abundance of literature already in existence on the exchange rate system obviated the need for a new paper, his own feeling was that it was important for the Fund to take a position on the exchange system, and it could more easily do so on the basis of a separate paper.

Mr. Jaafar stated that he was broadly in agreement with the recommended approach to the G-10 and G-24 reports on the functioning of the international monetary system. However, some specific issues deserved clarification. For example, it was not clear how the subjects of debt and of the transfer of financial resources would be fitted into the discussions. The G-10 report had not covered either issue, while both had been treated as an integral part of the G-24 report.

He was looking forward to Board discussion of the two papers on the exchange rate system, Mr. Jaafar continued. However, unlike some speakers, he saw merit in giving priority to the paper on target zones, although perhaps with the modifications recommended by Mr. Kafka. In any event, the proposed timetable for discussion of those issues was acceptable.

Both the G-10 and G-24 reports contained proposals for making Fund surveillance more effective, Mr. Jaafar observed. Under the suggested format for discussions, it was unclear whether the matter of surveillance would be covered only under its own subject heading or whether it would also be touched upon in discussions on the role of the Fund. Certainly the role of the Fund in exercising surveillance over the industrial countries should be given appropriate emphasis in the paper on surveillance that would be discussed under the surveillance heading.

Like Mr. Nebbia, he would welcome a global paper that pulled together the threads of proposals in the two reports and that formed the basis for the Interim Committee's discussion, Mr. Jaafar continued. While time constraints meant that some topics might have to be taken up in detail at a later stage, it was important that all the issues raised in the two reports should be incorporated in a general paper, which should also specify how it was proposed to deal with the remaining issues that had not yet received substantive consideration by the Board.

He joined Mr. Nebbia, Mr. Finaish, and others in supporting a study by the Fund of growth-oriented strategies, Mr. Jaafar commented. The paper on that study could be taken up together with the paper on the theoretical aspects of the design of Fund-supported adjustment programs. He agreed with Mr. Kafka that the paper on conditionality should be given priority, and he joined Mr. Massé in noting that the issue of Fund-Bank collaboration was not as urgent as some others, given that a paper on that topic had earlier been fully discussed. Another discussion so soon after that review would seem to be premature. On another matter, he was in agreement with Mr. Sugita's remarks on the appropriate timing for the Ninth General Review of Quotas.

Remarking on the area departments' work program, Mr. Jaafar considered that a clear need existed to rationalize consideration of Article IV consultation papers. No fewer than 80 such papers were scheduled for discussion before the April meetings of the Interim and Development Committees. Such a large number of country items on the agenda of the Executive Board was clearly not satisfactory, considering that the agenda was also heavy with policy issues. The time would seem to be ripe to again consider reducing the frequency of Article IV consultations, particularly for lower-quota countries and for relaxing the four-week rule for consideration of Article IV papers.

Mr. Archibong stated that, in general, he was in agreement with the Managing Director's work program and with Mr. Nebbia's perceptive statement on it. The key issue to be considered by the Board was how to handle the reports of the G-10 and G-24 on "The Functioning of the International Monetary System." While the two reports covered broadly similar ground, they did so from very different perspectives and yielded rather different conclusions and proposals. It was thus imperative that the Board should work toward promoting a convergence of outlook in a spirit of cooperation among those supporting the two reports. He hoped, in particular, that the representatives of the Group of Ten countries would make an extra effort to respond positively to the constructive proposals put forward by the developing countries.

The only point at which the two reports converged was in the statement that the present regime of exchange rates was highly unstable and added unnecessary complications to economic management, Mr. Archibong continued. Both documents urged a determined search for an alternative system that would combine greater stability with some other measure of flexibility. The suggestion had been put forward that the pursuit of target zones would generate the desired stability, although some did not share that view. Whatever positions were taken, two fundamental issues must be addressed: the degree of flexibility that should be permitted in exchange rate movements--i.e., where along the spectrum between rigidly fixed and freely fluctuating exchange rates any new regime should align itself--and whether the choice of the degree of flexibility should be made by each country individually or whether it should be made collectively so that it served the interests of all members of the Fund.

The planned review of the role of the SDR and other SDR-related topics slated for discussion did not seem to him to be in harmony with Article VIII, Section 7, which provided that the members of the Fund should collaborate with the objective of making the SDR the principal reserve asset in the international monetary system, Mr. Archibong noted. If that objective were fulfilled, the stability and predictability of international liquidity would be ensured. The path toward achievement of the objective was the regular creation of additional liquidity through the allocation of SDRs. It seemed that efforts were being made to gather evidence to justify reducing the role of the SDR; if that were not the case, then he found it difficult to understand the rationale for calling on the Fund to undertake studies on issues that had been settled before the creation of the SDR, particularly at a time when both the Fund and other agencies or individuals had advanced overwhelming technical and economic arguments in favor of an SDR allocation. It was to be hoped that the outcome of the studies currently under way on aspects of the SDR and subsequent discussions on those studies would allay the fears of his authorities and pave the way for the establishment of the SDR as the basic international reserve asset, especially with respect to increases in international liquidity.

The program of studies on the debt problem should focus equal attention on Africa, Mr. Archibong considered. He had noted a tendency on the part of the international community to downplay the adverse consequences of external debt on the African continent, apparently because of the relative unimportance of the systemic implications of the magnitude of that debt. Africa's debt was on average equivalent to 36 percent of GDP, a significant proportion considering that Africa's debt service ratio between 1978 and 1985 had more than doubled, a rate of growth that was perhaps much faster than had been registered in any other region in the world. The gravity of the debt burden had been formally recognized by African leaders who, at their recent Organization of African Unity (OAU) economic summit held in Addis Ababa had called on the international community to convene a special conference on the African debt problem.

He looked forward to discussions on the subject of surveillance in the hope that some specific proposals could be agreed on reducing, if not eliminating, the existing asymmetry in the international adjustment process, Mr. Archibong said. Greater attention must be focused on improving the effectiveness of surveillance over the major industrial countries whose actions had a dominant impact on the world economy.

On the World Economic Outlook exercise, Mr. Archibong remarked that he had noted a tendency on the part of the drafters of the World Economic Outlook to project what he considered were overoptimistic growth rates for developing countries, despite repeated warnings by those countries that the forecasts were too optimistic. Recognizing that the type of work involved in the preparation of world economic outlook papers was complex and difficult, he nonetheless saw no need to repeat mistakes. Management should evaluate the accuracy of forecasts in the past, identify where they had been off the mark, and draw lessons for the future.

He looked forward to discussions on the role of the Fund, Mr. Archibong said. The performance record of Fund adjustment programs during the current decade was mixed, not only in Africa but also in many other heavily indebted countries where progress had been less than expected. Without undermining the monetary character of the institution, there must be ways in which that record could be improved, perhaps by taking greater account of the attitudes and suggestions of the borrowing countries and by ensuring closer collaboration with the World Bank and other regional multilateral institutions. Finally, he supported Mr. Doe's suggestion to avoid bunching country mission or country-specific papers for Executive Directors representing several member countries. Proper planning could lead to an even flow of work, as well as to a prompt response to the needs of the countries in question.

Mr. Lundstrom said that he was in broad agreement with the work program outlined in the statement by the Chairman. The program was not only well balanced, it was also comprehensive, a characteristic that might give rise to some doubts about the likelihood that all issues could be addressed as thoroughly as they deserved. In that respect, he agreed with Mr. Sengupta and others who had suggested that, in discussions on the questions raised in the G-10 and G-24 reports on the international monetary system, priority should be given to specific proposals and that some issues could appropriately be deferred until after the Interim Committee meetings in April 1986.

One area where tangible results might be within reach was surveillance, Mr. Lundstrom continued. Those in his constituency wished to emphasize the need for an in-depth examination of the proposals aimed at enhancing the effectiveness of surveillance. In that connection, it was to be hoped that Executive Directors would have an opportunity to discuss the policies of the G-5 countries, especially those policies that had been shaped at the G-5 meeting of September 22, 1985.

He noted with satisfaction the intention to review and assess the operation of floating exchange rates and the proposal to study different concepts of target zones, Mr. Lundstrom commented. Documents and discussions on those issues should not concentrate on technical details but should cover more general considerations of the properties of different currency systems. On the subject of international liquidity and the SDR, he presumed that the question of how to develop the SDR into a more attractive asset would receive full attention.

Under the subheading of the role of the Fund, his constituency regarded Fund-Bank collaboration as a matter of priority, Mr. Lundstrom observed. The issue of collaboration had been accentuated both by recent U.S. initiatives and by the new Trust Fund arrangements in preparation. Mr. Dallara had expressed his preference for coverage of the collaboration issue in an analytical paper; he was in broad agreement with that approach and could endorse Mr. Dallara's remarks on the case for studying the "bolder approach to the use of Trust Fund resources" insofar as that was consistent with the Interim Committee's communiqué. In general, he looked forward with interest to the work on the Trust Fund and hoped that pragmatic solutions could be reached on those questions that remained open.

Priority should also be given to the problem of Fund resources in a longer-term perspective, Mr. Lundstrom continued. In that context, preparatory work for the Ninth General Review of Quotas should be considered, and the problem of prolonged use of Fund resources should be discussed.

The debt problem of many, if not most, developing countries was far from being satisfactorily resolved, Mr. Lundstrom considered. The G-24 report dealt with the debt issue and with the related subject of the transfer of financial resources to developing countries. The Nordic constituency attached particular importance to the comprehensive paper entitled "The Debt Situation: Recent Developments and Longer-Term Considerations." Given its position, the Fund should be able to present an analysis and assessment of the debt problem that could engender broad support and provide a common basis for the forthcoming discussions.

On special staff studies, Mr. Lundstrom observed that his authorities took a special interest in the paper on the experience with program design in the 1980s. Fund-supported adjustment programs had often been criticized, although in his view without much justification; it was to be hoped that the staff paper on that topic would contribute to a clearer perception of the problems of adjustment under Fund programs. He understood that account would be taken of the three papers on the effects of Fund-supported adjustment programs prepared in the spring of 1985 and of the seminar discussions on those papers in July. An indication of the work that had been undertaken since the seminar discussion would also be of interest. In addition, his authorities considered the proposed study on inflation and fiscal deficits to be important.

In view of the heavy work program, Board consideration of some of the special studies might have to be postponed until after the spring meetings of the Interim and Development Committees, Mr. Lundstrom commented. The forthcoming paper on experience with exchange rate flexibility in some developing countries should also provide useful information for surveillance purposes, and the paper should perhaps include a country-by-country summary of exchange rate policies recommended by the Fund. An interesting approach would be to compare the outcome of flexible exchange rate policies in developing countries operating under Fund programs with those not operating under Fund programs. Finally, on administrative matters, because the job evaluation exercise would have far-reaching consequences, it might be appropriate if Executive Directors were given some preliminary information on the exercise before the results were formally presented to the Board.

Mr. Foot stated that he too could endorse the thrust of the work program as outlined by the Managing Director. Of the wide-ranging topics for discussion, he would give priority to those most relevant to current debt initiatives, including Fund-Bank collaboration and the study of conditionality in Fund programs. Priority should also be given to proposed papers on the prolonged use of Fund resources and on overdue financial obligations to the Fund. Other topics, while by no means unimportant, might have to be postponed in view of time constraints. On papers nearer to completion--including that on target zones--he observed that a majority in the G-10 considered that target zones did not provide a practical solution to exchange rate problems in present circumstances. In that respect, perhaps the issue should be dealt with in the context of other discussions rather than being covered by itself in a special paper.

The program of studies on the SDR needed to be reviewed in light of the complexity of the issues and the current lack of support for another allocation, Mr. Foot continued. Employing a two-stage process along the lines recommended by Mr. Dallara could be very helpful in setting the pace and direction for discussions on what was a difficult issue. Finally, he could endorse the call to move forward quickly with papers on the design of adjustment programs and on the theoretical aspects of program design, studies that would be a natural complement to upcoming discussions, including that on conditionality.

The Chairman, responding to concerns raised by some speakers, said that he had taken note of the desire of Directors to have a precise analysis and presentation of the different proposals contained in the G-10 and G-24 reports, and an effort would be made to fulfill that desire. Also, he agreed with those who felt that it would not be possible before April to cover in detail all the issues mentioned in his work program. Hence, some subjects would be postponed, some would be treated in a preliminary fashion in the hope that the Interim Committee would provide sufficient guidance for further consideration by the Executive Board at a later date, and some topics would be given an in-depth treatment before the April meetings.

A number of Directors had taken up Mr. Nebbia's suggestion for a global paper that would present in a comprehensive way the different proposals put forward in the G-10 and G-24 reports and would make apparent any interrelationships among those proposals, the Chairman continued. He would ask the relevant departments to work on such a global paper; however, it was clear that the paper could be only a compendium at the present stage and could not benefit from discussions of individual topics that had not yet taken place. If Directors desired, however, the staff might be able to revise the global paper at a later stage, supporting it with elements of the individual discussions, once those had taken place. But the global paper should not be seen as a substitute for the individual studies or as the sole document to be submitted to the Interim Committee for consideration.

He wished to reassure Mr. Dallara and others that there was no intention of simplifying the discussion of proposals for improving the exchange rate system by focusing exclusively on the concept of target zones, the Chairman continued. The main paper on the exchange rate system was entitled "Review and Assessment of the System of Floating Exchange Rates," and that paper would cover a wide variety of proposals for improving the functioning of the exchange system. However, the staff had for some time been in the process of preparing a paper that focused more on the concept of target zones, and the judgment had been that it might be worthwhile presenting that paper to the Board in the hope that it would make an interesting contribution to the analysis of the exchange rate system by showing what different concepts were sometimes covered under the notion of target zones. In that respect, the paper could be seen as a clarification of or supplement to the main review paper on the system of floating exchange rates.

On the matter of surveillance, the Chairman said that he had taken note of the wish of Directors to get as much work done as possible on the proposals for enhancing the effectiveness of surveillance. While it might be necessary to return to some issues at a later stage, particularly if they involved amendments of the principles of surveillance, it should be possible to cover in the paper to be put to the Board the various suggestions on the subject in the G-10 and G-24 reports. The annual review of surveillance would provide Directors with an opportunity to analyze and comment on those proposals. He had also taken note of the views of those who felt that more thought should be given to the notion of multilateral surveillance within the Fund and to how that matter could be dealt with under existing surveillance procedures.

Under the subheading "International liquidity and the SDR," the Chairman recalled Mr. Dallara's suggestion for the timing of discussions on the implications of changes in the international monetary system for the role of the SDR and on the potential role of the SDR in contributing to the stability of the system. What was most important was that both subjects should be covered, and it was with that objective in mind that the staff intended to prepare papers on the topics. In that regard, it should be noted that there remained unanswered several broad questions that in his view pertained more to the second topic; those questions touched on what role the SDR could play in intervention and as a safety net in the system.

The debt problem, while not specifically listed under the topics to be covered in the Board's consideration of the G-10 and G-24 reports, was nonetheless important and would be discussed, the Chairman continued. The staff's intention to write an extensive paper on the longer-term considerations relating to the debt situation was in his view appropriate, and it was clear that there were relationships between that subject and the World Economic Outlook exercise that would provide the appropriate economic foundation for the discussion of the paper on debt. The timing of discussions on the two topics was of course open to debate, but the management and staff were suggesting that the debt paper be scheduled for discussion immediately following the World Economic Outlook discussion.

He had received little clear guidance on the priority issues for discussion under the subheading "Role of the Fund," the Chairman commented. The matter of conditionality was the only subject that Directors agreed was important. In that respect, the staff would produce a paper for the annual review of experience with upper credit tranche arrangements but would attempt to broaden somewhat the coverage of that paper to include comments on the growth orientation of the design of Fund programs. Directors had expressed little enthusiasm for holding on December 30 the annual review of the experience with upper credit tranche arrangements; however, it must be remembered that the guidelines on conditionality called for completing the review before the end of 1985, and the scheduling had been intended as a signal of the existence of that deadline. If Directors wished, of course, the review could be delayed until, say, mid-January.

On the list of priorities for Board discussion, the matter of Fund-Bank collaboration ranked high, the Chairman observed. It should not be necessary to rewrite the thoughtful and comprehensive paper produced in 1984, but the issue of Fund-Bank collaboration should be reviewed in light of comments at the Annual Meetings in Seoul. Certainly there would be an opportunity to touch on the matter in discussions on the use of Trust Fund resources, but it might also be useful in the paper on conditionality to comment on Fund-Bank collaboration in connection with growth-oriented adjustment strategies.

The matter of overdue obligations to the Fund and their effects on the institution's income position and on the setting of charges would be examined in the near future as part of the Board's regular work, the Chairman went on. Also it was of course possible, if Directors so wished, to discuss the Ninth General Review of Quotas earlier than end-1986, although the schedule he had set out in his work program was consistent with normal scheduling of quota discussions.

The issue of prolonged use of Fund resources was closely related to questions of conditionality and policies on the use of Fund resources, and he saw no reason to discuss it on the basis of a separate paper, the Chairman said. Under the Board's guidance, the staff had earlier examined the question of prolonged use of Fund resources in individual cases and, given the time constraints, his preference at present would be not to write a special paper on prolonged use.

The creation of a new facility to provide financing for interest rate increases was one of the proposals put forward in the report of the G-24 on "The Functioning of the International Monetary System," the Chairman recalled. At some stage, the Board would have to address that matter, and he had noted during the discussion the desire of a number of Directors for specific studies on all the proposals in the G-10 and G-24 reports. Of course, the creation of such a facility if it were to be agreed upon would be breaking new ground, and it was difficult for him to say when a paper on the matter might be ready; but it was clear that the Board would have to discuss the matter at some stage.

The matter of decision making in the Fund related to the way in which the institution was organized and constituted, and he would not wish to instruct the staff to write papers on that issue without firmer instructions from the Board, the Chairman remarked. Of course, to the extent that the staff could provide any technical clarifications or other inputs with regard to any proposals put forward by the Board, he would be happy to instruct it to do so.

On other matters, the Chairman recalled the expressed desire of a number of Directors not to bunch discussions on country matters in a way that would make matters more complicated for the Board and for individual Directors. An effort would be made to ensure balance to the extent possible. SDR matters had been defined as a priority issue, not only because the topic was covered among those in the G-10 and G-24 reports, but also because the Interim Committee had asked the Board to examine the issue as a matter of urgency.

The question of the transfer of financial resources was one that he had purposely not included in the work program, the Chairman observed. The subject was certainly one that had great relevance for the debt situation and the world economic outlook; but the Fund was by no means the only institution competent to discuss the transfer of financial resources. In reviewing with the staff the issues to be included in the Fund's work program, he had had in mind the work of the Development Committee and the indication in paragraph 10 of the Interim Committee's communiqué that the Committee welcomed the commitment of its Chairman to communicate with the Chairman of the Development Committee in order to see to what extent arrangements could be made for cooperation on matters pertaining to development. The transfer of financial resources was an issue included among those matters. While he was of course in the hands of the Board, he felt compelled to suggest that, if the Fund were to embark on a study of the transfer of resources in isolation from the work on that issue being done by the World Bank and the Development Committee, studies would be duplicated and the Fund staff might be needlessly strained. The subject was certainly an important one, but it should not, in his view, be incorporated in the Fund's work program before further thought had been given to how the Development Committee and the World Bank might also study that issue.

Finally, on the use of Trust Fund resources, the Interim Committee had provided relatively straightforward guidance to the Board, which must transform the mandate into specific proposals, the Chairman commented. Mr. Dallara had asked that the paper on the use of Trust Fund resources incorporate Secretary Baker's proposals for a "bolder approach" to Fund-Bank cooperation. He had no difficulty with the idea of adding to the paper a paragraph on the U.S. approach, with the following provisos: first, any such paragraph should be written under the guidance of Mr. Dallara and his authorities. Second, the Board was under mandate to write a paper with the aim of achieving a decision before the April meeting of the Interim Committee on the basis of the understandings outlined in the Committee's October communiqué. While the decision could easily be shaped to take account of strong support for the U.S. views, if such support should emerge, the operational proposals of the paper could not, at least at the present stage, be centered on the U.S. approach.

The Deputy Managing Director recalled that a number of Directors had reacted favorably to the proposal to review the content, format, and procedures of the Annual Report. A detailed Outline of the next Annual Report would be presented for consideration by the Board sometime in February, at which time Directors would be able to discuss the substance of the review. Suggestions from Directors on ways in which the content, format, and procedures of the Annual Report could be improved would be welcome.

One Director had queried whether it might not be better to postpone discussions of the paper on the computer center until later in the spring, when another more technical paper on Bank-Fund collaboration on computer usage was scheduled for discussion, the Deputy Managing Director remarked. The paper on the location of the computer center was one that had been in process for some time. At present, the Fund either leased or owned mainframe computers, and it was important to find inexpensive housing--either for purchase or for rent--in which to place those machines. It was that rather simple matter that was the subject of the paper on the computer center. The other paper was oriented more toward joint use by the Fund and Bank of computer facilities and computers themselves, although, in preparing its paper on the computer center, the staff had held a number of discussions with the World Bank to see whether there might be advantages in jointly purchasing or leasing a location for the institutions' facilities.

Remarking on the job evaluation exercise and the proposed paper on the new grade and salary structures, one Director had suggested holding off on an interim salary structure until the work of the Joint Bank-Fund Committee on Staff Compensation had been concluded in the spring of 1986, the Deputy Managing Director noted. In August 1985, the Managing Director had indicated that the Fund would be following a procedure similar to that followed in the World Bank in implementing the results of the job evaluation exercise in that institution. The World Bank had already submitted to its Executive Board for consideration a grade structure and an interim salary structure that would be employed until the work of the Joint Committee had been reviewed and evaluated. In any event, it would not be practical to attempt to present to the staff the results of the job evaluation exercise except in the context of a salary structure. Without such a structure, the staff would not be able to attach any meaning to the new grades. On Mr. Lundstrom's request for an informal Board review of the results of the job evaluation exercise, it was to be hoped that sufficient information for such a review would be available sometime in December. At present, a number of committees comprised of staff with general supervisory responsibilities were looking at the broad results of the evaluation exercise; once that phase was concluded, it would be possible to give the Executive Board some idea of those results and their implications.

The Chairman recalled that Mr. Kafka had proposed asking some external consultants to draft papers or parts of papers on the requested staff studies mentioned in the work program; he had not sensed strong support from Directors for that proposal. On the debt problem, both Mr. Doe and Mr. Archibong had expressed concern that the problem of debt in Africa tended, on occasion, to be overlooked because of the perception that the systemic implications of such debt were not acute. The point was well taken, and the planned paper on debt would address the regional aspects of the problem.

A request had been put forward by Mr. de Groote for a discussion of bilateral commodity transactions, perhaps in the framework of the World Economic Outlook exercise, the Chairman remarked. The staff would look into the possibility of meeting Mr. de Groote's request. Interesting suggestions had also been put forward relating to exchange rates in developing countries, enlarged access, and actual versus nominal use of resources. On the timing of the discussions on debt and the World Economic Outlook exercise, he understood that the Board was willing to go along with separate discussions that followed one on the other, although some continued to prefer a single discussion. In the circumstances, the question should perhaps be left open for the time being.

One Director had asked why reports on conditionality used 1982 as the base year, the Chairman recalled. The answer was that 1982 was the last year that could be assessed with sufficient hindsight. Several Directors had expressed regret that the theoretical paper on the design of Fund programs had again been postponed, and they had wondered whether priorities might not be reshuffled in a way that would make it possible to bring the paper to the Board somewhat earlier. They had argued that there was little point in discussing conditionality if the theoretical bases of that discussion would not be available for several months thereafter. The argument was a reasonable one, and he had some intellectual sympathy for the concerns that had been raised by Directors; hence, he wondered whether it would be possible to accelerate the paper.

The Deputy Managing Director replied that the paper on theoretical aspects of the design of Fund-supported adjustment programs, while already in preparation, was a broad undertaking for the Fund's Research Department. Given the work program outlined by the Chairman in preparation for the Interim Committee meeting in April, it had been felt that the schedule for completing the paper would have to be extended somewhat to enable appropriate interdepartmental reviews.

Mr. Dallara, responding to a number of points touched upon by the Chairman in his summary remarks, said that his authorities were well aware that the operational aspects of, and proposed decision contained in the forthcoming paper on, the use of Trust Fund resources could not as a practical matter focus on the scheme outlined by Secretary Baker in Seoul. He welcomed the Chairman's willingness to include in the paper a section on that proposal, which the membership was in any event already actively discussing and would at some stage be asked to embrace or reject. His hope was simply that the proposal would be reviewed and possibly analyzed in the Trust Fund paper; toward that end, he was prepared to provide any information that might be helpful to the staff.

The willingness of Directors to pay attention to growth-oriented adjustment strategies in the annual review of experience with upper credit tranche arrangements and of the guidelines on conditionality was welcome, Mr. Dallara continued. While recognizing that it would be difficult for the staff to approach that matter in any extensive or comprehensive way before the conditionality discussions, he nonetheless hoped that some attention could be given to the kinds of policies that would promote sustainable growth. In that connection, he recalled that a paper had been prepared for a seminar discussion held some months previously in the Board; the paper had mainly been a review of existing literature on the subject but contained, as well, invaluable information on growth under Fund programs. Such empirical information, perhaps with some modest theoretical backing, could help Directors better to understand which policies were likely to lead to sustainable growth and how the Fund could go about giving additional emphasis to those policies.

He was still unclear about how the various papers on the SDR would be discussed in the Board, Mr. Dallara continued. He himself had expressed an interest in an initial discussion focusing on the first item, namely, the implications of changes in the international monetary system for the role of the SDR, a topic that he felt would provide an appropriate basis for proceeding to other issues.

He was appreciative of the additional information provided by the Chairman regarding the paper on target zones, Mr. Dallara said. He wondered in that connection whether that paper--or another, broader paper--should not analyze the extent to which other variables, such as fiscal and monetary policy and variables making up the principles of surveillance, could be brought to bear on an assessment of a country's policies and performance. Finally, his chair had expressed an interest on previous occasions in the possibility of integrating the matter of staff salaries into the budget cycle and discussions. Such an approach might well be impractical, but he would appreciate it if it were considered and if the results of that consideration were brought to the attention of the Executive Board, perhaps on the occasion of the midyear budget review.

Mr. Sengupta asked for clarification of the way in which Secretary Baker's proposal was to be fitted into the discussion on the use of Trust Fund resources. He had understood the proposal to be aimed at strengthening the international debt strategy generally.

Mr. Dallara replied that he had been referring to the proposal outlined briefly by Secretary Baker during the Interim Committee discussions on the use of Trust Fund resources. At that time the Secretary had outlined what he had referred to as a possible "bolder approach" involving even more intense collaboration between the Fund and the World Bank and some supplementary resources that could be channeled through the World Bank in combination with Trust Fund resources.

The Chairman added that the paper on the use of Trust Fund resources was intended to translate into operational terms the guidance of the Interim Committee on the Trust Fund issue. One Fund member had proposed a "bolder approach" that would involve some joint actions with the World Bank, as well as some additional resources from the Bank and other bilateral sources. It was appropriate for the Fund to refer that approach to the membership for possible consideration, but the focus of the paper would be the guidance provided by the Interim Committee.

On the relationship between the budget discussions and the compensation review, the Chairman agreed that a simultaneous approach would be more logical, especially since salaries represented the major element of Fund expenditures. That being said, the timing of certain elements of the exercises might make a simultaneous approach difficult.

The Deputy Managing Director noted that the basic Hay data on which staff compensation proposals were based were collected at a time that made it impossible to combine the compensation review with the current budget exercise. However, for the future, and once the work of the Joint Bank-Fund Committee on Staff Compensation had completed its work, it might be possible to make adjustments to one or both of the exercises that would enable the Fund to achieve the kind of result that Mr. Dallara had in mind.

Mr. Sengupta recalled that he had been among those Directors who had expressed a willingness to postpone discussions on the SDR until after the April meetings of the Interim and Development Committees. In putting forward his own proposals for the timing of discussions on SDR issues, Mr. Dallara had suggested that the matter of implications of changes in the international monetary system for the role of the SDR was the most important of all SDR matters up for discussion. As the topic was important, sufficient time should be given for its consideration, which was another argument for postponement.

The Chairman recalled that the Interim Committee had noted that the SDR constituted an integral part of the structure of the Fund and agreed to consider the matter again at its next meeting in the light of developments...[while urging the Executive Board] to pursue its planned review of the role of the SDR, in all its aspects, in the international monetary system as a matter of priority, and to submit to the Committee a progress report for consideration by the Committee at its next meeting. In order to produce a progress report, the Board would have to make progress; and, while some topics could certainly be postponed until after the April meetings, the process of discussion must have begun.

Mr. Sengupta observed that the question of the transfer of financial resources was one involving both the World Bank and the Development Committee, was an important part of the G-24 report, and was indeed considered critical to the functioning of the system. Perhaps in the proposed global paper the staff could analyze the proposals of the G-24 on the transfer of financial resources and then go on to note that there would be areas in which consultation or discussions with the World Bank would be necessary. Certainly the proposals put forward by Secretary Baker would also need to be discussed in consultation with the World Bank, and any paper on those proposals would no doubt benefit from consultations with World Bank staff. Perhaps the same approach could be taken with respect to a paper on the transfer of resources; then, if the subject were raised in the Interim Committee, it could be decided whether that Committee or the Development Committee was better suited to discussing the issue, but at least the paper on which the discussion could be based would be available, and everyone would know that the subject was receiving full and appropriate attention.

Mr. Nebbia stated that he could fully support Mr. Sengupta's proposal for a paper on the transfer of resources.

The Chairman replied that he would prefer to bring the proposal of Mr. Sengupta and Mr. Nebbia to the attention of the Bank and to the Chairmen of the Interim and Development Committees before embarking in the Fund on the preparation of a paper on a topic that was the more central concern of the Development Committee and the World Bank.

The Executive Board then concluded its discussion on the work program until the April 1986 meetings of the Interim and Development Committees.

2. CONDITIONALITY FOR USE OF FUND GENERAL RESOURCES - EXTENSION OF PERIOD FOR REVIEW

The Executive Directors agreed, in light of their discussion of the work program, to extend the period for the review of conditionality required by Decision No. 7857-(84/175), adopted December 5, 1984.

The Executive Board then took the following decision:

> The Executive Board agrees to extend until January 31, 1986 the period for the review of conditionality required by paragraph 2 of Decision No. 7857-(84/175), adopted December 5, 1984.

Decision No. 8128-(85/164), adopted
November 12, 1984

APPROVED: July 1, 1986

JOSEPH W. LANG, JR.
Acting Secretary