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FEDERAL RESERVE SYSTEM
DIVISION OF INTERNATIONAL FINANCE

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TO Chairman Volcker

FROM **TED TRUMAN**

Attached for your information is the final text of Charles Dallara's statement on IMF conditionality. These discussions essentially are mandated by the passage of time. In this context and against the background of what you and other U.S. officials have been saying, this statement could have been worse. It does contain -- see marked passages on pages 3, 9, 13, 18 and 19 -- some passages that suggest the conditional nature of IMF conditionality.

T. Truman

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

January 23, 1986 - 86/8

Statement by Mr. Dallara on Issues
in the Implementation of Conditionality
Executive Board Meeting 86/11
January 24, 1986

The material provided as background for our Board discussion on conditionality provides substantial empirical evidence, as well as useful analysis, on many issues related to the implementation of Fund conditionality. I would like to take as a point of departure for my statement the comment on page 1 of the staff document (EBS/85/265) that the "Fund's support for members' adjustment efforts has played a critical role for promoting a coordinated approach to problems of adjustment and financing, an approach that in the large has been remarkably successful in preserving the fabric of international cooperation."

This success should be attributed in part to the Fund's policies and procedures relating to the use of its resources, policies known collectively as "conditionality." These policies, built up through case-by-case experience over a period of more than three decades, and codified in two Board reviews in the late 1960s and 1970s, respectively, have generally served the Fund and its membership well. They have enabled the Fund to support, as Mr. Guitian indicates in his pamphlet on Fund conditionality, members' adjustment efforts in a manner consistent with that member's economic interests and objectives, as well as the broader interests of the Fund as a whole.

This has, in some respects, been reinforced by the experience of the early 1980s, when the Fund has been called upon to provide temporary balance of payments financing and policy advice, in the context of standby or extended arrangements, on an unprecedented scale. The credibility of the Fund in providing policy advice and encouraging needed policy changes has been critical to the Fund's ability to catalyze additional resource flows, and more generally to its ability to foster progress in dealing with the serious economic problems which many debtor countries experienced during the early 1980s.

Fund conditionality has evolved over time, adapted gradually to the changing economic circumstances and needs of its members. Further changes should also be made in a cautious and evolutionary fashion. But we should not shy away from the need for further adaptations in Fund conditionality, particularly at a time when the staff paper makes clear, "in spite of the adaptations that have been made in Fund conditionality, questions remain about its effectiveness." It is, therefore, important, as the paper suggests, to consider "whether improvements can be made in the design of adjustment programs to bring about stronger assurances of both balance of payments adjustment and sustained growth."

It is a fact that a substantial number of members entering into Fund arrangements over the last five years have not been as successful in their adjustment efforts as would have been desirable (EBS/85/265, page 1). This has been due substantially in many cases to problems of implementation. But adverse developments in the external environment have also been a factor, the world economic expansion and lower interest rates of recent years notwithstanding. Additionally, we must recognize that the design of Fund programs may also have been a factor and is incumbent on us to use the present review 1/ of conditionality to assess the extent to which this has been the case, and to consider appropriate corrections as needed.

It was in recognition of the problems that have developed, particularly in connection with a number of major debtors, that Secretary Baker proposed a "Program for Sustained Growth" in his speech at the Annual Meetings in Seoul. My colleagues are familiar with this program to strengthen the international debt strategy, which has received broad support in the international financial community, including from this Board during our discussion of international capital markets this past November. As they will recall, this Program is centered on three elements:

- The adoption by principal debtors of comprehensive macroeconomic and structural policies, supported by the international financial institutions, to promote growth and balance of payments adjustment, and to reduce inflation.

- A continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the multilateral development banks (MDBs), both in support of the adoption by principal debtors of market-oriented policies for growth.

- Increased lending by the private banks in support of comprehensive economic adjustment programs.

The emphasis in this strategy to promote both growth and balance of payments adjustment, and the continued central role for the IMF, underscore the importance of an introspective look at this time of our policies relating to the use of Fund resources.

1/ I would be remiss if I did not mention the important role the Fund can play in promoting a more favorable external environment, particularly through surveillance of the policies of member countries not using Fund resources. In this connection, we will have the occasion to discuss methods of strengthening Fund surveillance during our upcoming Board meeting on this issue.

Many of my comments and observations relating to this review will be of a general nature, as are many of the points brought out in the staff material. Let me make clear at the outset, therefore, our recognition that IMF conditionality must be framed on a case-by-case basis in light of the particular circumstances of a member. This does not preclude us, however, from drawing certain generalizations from the empirical evidence provided us in this review. I would also like to stress our view that IMF conditionality is not a process of "forcing" policy change on a member country. Without the willingness and capacity of national authorities to support and implement policy changes, external efforts to encourage such change are unlikely to succeed regardless of the "techniques of conditionality."

In this vein, one of the lessons which can be drawn from the recent experience with Fund-supported programs is that at the heart of economic programs to promote both balance of payments adjustment and growth must be sound macroeconomic policies that have strong support at home. The review of recent experience, in fact, reinforces the need for persistent and early action in these policy areas if imbalances are to be corrected at an early stage and the adverse effect of such imbalances on growth minimized. This point was underscored by Secretary Baker in his Seoul speech when he stated that:

> Macroeconomic policies have been central to efforts to date and must be strengthened to achieve greater progress. These policies should consist of:
>
> -- market-oriented exchange rate, interest rate, wage and pricing policies to promote greater economic efficiency and responsiveness to growth and employment opportunities; and
>
> -- sound monetary and fiscal policies focused on reducing domestic imbalances and inflation and on freeing up resources for the private sector.

Monetary and Fiscal Policies

The theoretical basis for an emphasis on monetary and fiscal policy is founded not only in the monetary approach to the balance of payments, which has been central to the Fund's efforts for many years, but also the absorption approach, which emphasizes the need to reduce absorption in the short-run in order to promote adjustment and growth in the medium-term. Fund programs are often implemented in circumstances characterized by excess credit creation, large and/or growing fiscal imbalances, excess demand and high (if not accelerating) rates of inflation. The background paper for today's Board meeting (EBS/85/277) documents the extent to which fiscal and monetary imbalances prevailed in many of the countries under study. Fiscal imbalances, for example, were a major source of difficulties in most of the countries in the sample, while related monetary imbalances also prevailed in many countries. Furthermore, such conditions often contributed to the imposition of controls (both domestic and external) which reduced economic efficiency.

In such circumstances, the need to restore financial stability, to reduce the overall level of absorption in the short-run, and the need to reduce government dissavings in order to help increase savings and investment in the economy as a whole, can be critical to re-establishing sustainable growth with a viable payments position in the medium-term. Not only can sound fiscal and monetary policies directly help foster the economic climate for such a resumption of growth, but they can strengthen confidence among both domestic and foreign investors, contributing to a general restoration of creditworthiness which can have further positive effects on growth.

Since Fund policies have generally been centered on disciplined monetary and fiscal policies, we have developed techniques for encouraging policy change in these areas, particularly the use of performance criteria placing ceilings and sub-ceilings on the net expansion of domestic credit, as well as the priority given in many programs to the need to establish and maintain real positive interest rates. Recent experience might suggest, however, more frequent use of performance criteria directly related to fiscal imbalances, as well as the greater use of sub-ceilings in areas additional to credit to the public sector. (I will return to this later in my statement.)

A troublesome aspect of fiscal and monetary performance in recent years has been the extent to which progress in reducing initial imbalances has in some cases been eroded or reversed through inadequate implementation over time, adverse exogenous developments, or a combination of these and other factors. This is not, of course, a phenomenon limited to developments in the fiscal and monetary areas, but it has been particularly evident in these areas.

When a Fund-supported program is no longer in effect, Article IV consultations can provide a framework for a continuous dialogue between the Fund and the member to help maintain policy momentum. Use can also be made, as the staff paper suggests, of the provision in all upper credit tranche arrangements for consultations during the period a member has outstanding purchases in the upper credit tranches. We believe this would be a useful approach, and support its use in selected cases and instances (not necessarily limited to cases of prolonged use or to consultations around the time of the completion of a program).

Another approach which could help promote greater continuity in economic policies, and perhaps encourage correction of policy deficiencies at an early stage, would be to bring more efficiency and effectiveness to the review process. One way to do this might be to bring reviews of existing programs to the Board within an agreed timeframe, regardless of whether the review has been successfully completed. Such an approach would allow for a discussion of issues relative to access and phasing and could have a number of advantages. It could provide for a clear and thoughtful discussion of a member's policies by the Board, the staff, and the member which would:

-- maximize the potential to reduce slippages in policies or performance that might otherwise accumulate;

-- reduce chances for a reversal of hard-won progress in the first half of the program;

-- provide a setting that could assist the member and staff in formulating new policies and criteria in order to build upon an existing Fund program, or negotiate a new program.

We believe that this approach merits consideration, and would be interested in having the staff investigate ways to accomplish it.

Exchange Rate Policy

Techniques have also been developed to encourage needed policy change in another traditionally important area of Fund-supported adjustment program, referred to by Secretary Baker in his Seoul speech--exchange rate policy. With its theoretical foundation in both the elasticities and absorption approaches to the balance of payments, exchange rate policy has appropriately been a central part of most Fund-supported economic programs.

In many developing countries, the capacity of the exchange rate to affect both domestic absorption and supply is unmatched by any other single variable or policy instrument. In the context of the current economic problems faced by many debtor countries, an effective exchange rate policy can be particularly useful in promoting competitiveness and reducing absorption. This would occur in a much more efficient manner than through controls or restrictions. As the background staff paper points out on page 23, "exchange rate misalignments were seen as an important factor in the balance of payments difficulties of many of the sample countries."

An appropriate exchange rate policy can have important positive benefits not only on adjustment of external imbalances, but on the prospects for medium-term growth, particularly the potential for exchange rate change to stimulate aggregate supply. Not only can such a policy increase the overall level of economic activity, but it can have important positive effects on the expansion and diversification of exports and, consequently, on external creditworthiness--which in turn can have further positive effects on growth.

The Fund's techniques used to encourage policy changes in these areas have often involved prior actions. While prior actions have proved useful in bringing about needed immediate exchange rate changes, this is sometimes a once-and-for-all measure, whereas the real need is for a more automatic procedure that ensures continous exchange rate flexibility. As the staff paper points out on page 23, "mechanisms that provide for more continuous flexibility in exchange rate policy are preferable." In particular, market-determined pricing of the exchange rate might be the most effective approach in many countries and in many instances has been. In this regard, we look forward to the discussion of the staff paper on "Experience with Exchange Rate Flexibility in Developing Countries" during which we will be able to review past experience. That discussion could provide us with an opportunity to review the success associated with flexible exchange rate regimes and to consider how flexible market-oriented exchange rate policies might be incorporated in Fund programs.

I believe that we should make further efforts to incorporate into our programs mechanisms to help ensure not only that an appropriate exchange rate policy is in place at the onset of a program, but that it is implemented throughout the course of the program. Alternatively, a formal commitment in letters of intent to a flexible exchange rate policy, bolstered by the inclusion of consideration of exchange rate policy as a part of the program review, can be a useful approach for securing continuity in exchange rate adjustment.

Before leaving the subject of exchange rate policy, let me stress the continuing importance of the Fund's role in liberalizing exchange regimes. A realistic exchange rate cannot play its proper role if access to the exchange market is severely restricted, with the result that the resource allocation effects of exchange rate movement are minimized or thwarted. Investment that takes place in a restrictive environment is often misplaced, therefore limiting its positive effect on growth. Efforts to reduce exchange restrictions often need to be approached in a broad context, not only relating to exchange rate policy, but also to tariff reform and import liberalization, areas to which I will turn later. The standard performance criterion in the area of exchange restrictions has focused on the need to avoid further intensification of existing, or imposition of new, exchange restrictions. However, some programs do go beyond this, and take a more active approach in encouraging the reduction or elimination of existing restrictions. We see more scope for increased use of specific understandings to this effect incorporated into review clauses.

Pricing Policy

Although the exchange rate may be the most important price, the need for a comprehensive approach to prices in order to promote balance of payments adjustment and growth is also stressed in the staff paper. We believe that consideration needs to be given to ways in which appropriate pricing policy can be more effectively encouraged through Fund programs. Pricing which is more closely related to the relative scarcity of goods and services in an economy can have important benefits in promoting adjustment and growth. Among them are:

-- The reduction of imbalance in government fiscal positions;

-- The provision of appropriate pricing signals to producers and consumers, thus encouraging a shift of resources into more productive sectors and limiting excess demand; and

-- The reduction or elimination of black markets, in some cases leading to a reduced "effective price" on various subsidized goods.

In fact, appropriate pricing policy is an essential adjunct to exchange rate changes, because without a pass-through of these changes to the domestic pricing system, exchange rate changes are not likely to have a significant positive effect.

As with the exchange rate, techniques are needed which help provide for more continuous adjustment of other prices to changing economic circumstances. A correction of a few particularly important prices at the beginning of a program can help give the Fund a sufficient basis for approval of the use of Fund resources in a program, and can give important impetus to the movement of relative prices toward a more competitive and more efficient structure. But such gains will be short-lived, and their impact limited, if they are not extended more generally, and more continuously, throughout the economy. This is particularly important in an environment of high inflation. Thus, it is important that Fund programs incorporate more consistently techniques for encouraging continuous and broadly based pricing changes. The incorporation into review clauses of appropriate agreements on such mechanisms could be helpful in avoiding situations where the prices of a few key goods and services, often politically sensitive, become the focal point of discussions between the Fund and a member country. Market-oriented strategies may be particularly effective in this regard, although, as the staff paper points out, other techniques can also be envisioned.

Other Structural Policies

A review of our recent experience under Fund-supported programs also underscores the importance of other aspects of structural adjustment, particularly those that can expand the aggregate potential supply of output. The evidence suggests that programs which are heavily oriented toward demand restraint, without supportive pricing and structural policy changes, are less likely to promote an adjustment of the balance of payments in the context of a renewal of growth than are programs which incorporate at an early stage measures in these areas. As the background paper points out on page 36, "the prevailing pattern in general was for countries to initiate the adjustment process with emphasis on demand restraint, and to turn only gradually to a greater emphasis" on policies more oriented toward improving the supply capacity of the economy.

As the background paper continues on page 40, some of this may be due to "the realization of the limits of what could be accomplished solely with demand policies, as well as an increased awareness of the size of imbalances." (It may also, however, be partly a function of the design of Fund programs, with our well-developed staff expertise and institutional techniques to guide demand-oriented policies, relative to other supply-oriented policies.) Among the cases reviewed, in those in which a broadly based adjustment strategy, including structural measures, was implemented at an early stage, the performance both in terms of balance of payments adjustment and growth generally exceeded the performance of cases where the economic strategy was more heavily focused on demand restraint.

The staff paper makes the point on page 10 that some types of structural measures are difficult to implement quickly and economic responses to them are often less predictable and have longer lags than the responses elicited by more immediate demand-management policies. While it is true that certain types of structural policies are difficult to implement quickly, and it may also be true that there are longer lags involved in certain structural policy changes, I have some difficulty with the concept that economic responses to them are less predictable. Furthermore, I would interpret the existence of long lags, and the difficulties in implementation as evidence of the need for additional and earlier emphasis in these areas, if growth and adjustment are to be realized. As Occasional Paper No. 41 on "Fund-supported Adjustment Programs and Economic Growth" makes clear on page 4, "notwithstanding the difficulties of implementing supply-side policies as part of an adjustment program, the Fund has stressed their importance in improving efficiency and the long-term rate of growth."

As Directors are aware, in his Seoul speech, Secretary Baker stressed the importance of programs designed to promote both adjustment and growth, and underscored the role which could be played in facilitating the achievement of these objectives by structural policies, supporting and enhancing the effectiveness of needed macroeconomic policy changes (as discussed above). This emphasis on growth was warmly received in the Executive Board discussion referred to earlier. As the Managing Director's Summing Up of that discussion notes, "the growth-oriented strategy of adjustment was welcomed."

It is from that premise, which I believe we all share, that I approach questions related to other structural policies and Fund-supported programs. My comments will focus on the way in which the Fund can play an important role in promoting these objectives, but I would like to preface these comments by a few general points:

-- First, as in other policy areas, the key question is not the role of the Fund, nor for that matter the roles of other multilateral institutions, in promoting structural policy changes, but rather the importance of appropriate policies being developed and implemented by the debtor countries.

-- Second, it is important that the multilateral development banks play an increasing role in supporting needed structural policy changes in debtor countries. In many areas of structural change, the Bank can and should take the lead, but the Fund's role can be supportive. In other areas, the Fund will need to play a leading role. This may be particularly important in areas, and in countries, where World Bank efforts to support policy changes may take some time to become fully developed. The exact division of labor in individual cases will, of course, need to be worked out on a case-by-case basis in light of the economic problems and prospects of individual members, as well as the relative strength of the two institutions.

-- Third, enhanced attention by the Fund to certain areas of structural adjustment may have staffing implications for the Fund, and it may therefore only be feasible to see this enhanced attention develop over time. The comparative advantages of the two institutions are generally well known and accepted, as is the need for them to work together closely and effectively. The Fund's experience and expertise in macroeconomic, exchange rate and financial policies and reforms, and the Bank's experience and expertise in microeconomic, sectoral and development policies, suggest a natural pattern of specialization and collaboration between the two institutions in supporting sound policies in member countries.

-- Fourth, increased emphasis by my authorities on early and broadly based efforts on structural reform should not be misinterpreted as a view that structural adjustment can occur in a relatively brief period of time. As the following discussion of individual policy areas demonstrates, structural adjustment can often require a significant period of time for full implementation.

In his Seoul speech, Secretary Baker touched on a number of areas in which additional emphasis in Fund programs is being given, or is warranted. He noted, in particular, that increasing attention is being paid to areas such as trade liberalization, pricing policies and the efficiency of government-owned enterprises. Furthermore, he stated that "the Fund should give higher prority to tax reform, market-oriented pricing, the reduction of labor market rigidities and to opening economies to foreign trade and investment. This will help assure that Fund-supported programs are growth oriented."

Indeed, the Fund has increasingly stressed the importance of supply-side policies as demonstrated by the following data:

-- Of 93 programs, approved between 1980 and 1984:

- Public enterprise pricing was covered in 51 of these programs;
- 26 included agreements partially or fully to privatize public enterprises;
- 24 included efforts to reform and modernize the financial system;
- 45 promoted liberalization of the trade system;
- 36 included commitments to adopt a more flexible pricing system, with 28 committed to reviewing the price control system; and
- 20 incorporated measures to simplify the income tax rate structure.

As the background staff paper points out on page 63, however, "despite the widespread attention paid to structural issues, the reforms achieved were often of a stepwise, piecemeal character, and there continued to be a large degree of reliance on administrative controls in resource allocation."

Therefore, we must consider ways in which we can help promote more consistent and more effective structural policy action if we are to enable the Fund to fulfill more effectively its role in promoting growth and adjustment. This involves the development of tools and techniques which the Fund can use, on a case-by-case basis, in supporting, guiding and nurturing policy changes in these areas.

As a guide to our future efforts, we have found past experience helpful. Below, I outline a number of policy areas in which we see a need for the Fund to give greater attention and to develop greater consistency in its approach, keeping in mind that the degree and nature of the attention given in any particular Fund program will inevitably be a function of the economic problems and circumstances of the country, and that efforts in these areas must be closely coordinated with the World Bank.

Fiscal and Tax Reform

Fund work in this area has often been conducted in the context of technical assistance. In this way the Fund has played, and should continue to play, a useful and constructive role in facilitating policy change in member countries. But greater integration into Fund programs of Fund efforts to promote tax reform, and the strengthening of tax systems, may well be warranted in some cases. As the background staff paper notes on page 21, "in most sample countries the pattern of evolution of government revenue largely reflected structural weaknesses in the tax system," with "narrow tax bases heavily concentrated on taxes on external transactions and deficiencies in tax administration" representing important aspects of fiscal imbalances. Furthermore, there has been growing awareness that high tax rates and tax policies in many countries not only encourage tax evasion, smuggling, and other non-productive activities, but they may even lead to reduced government revenue over time. They can also involve significant distortions and disincentives to investment and job creation.

It is important that judgments be made at the outset of Fund-supported programs regarding the importance of basic changes in tax systems, including tax rates and the tax base, and that, where these judgments point toward a priority need for changes in these areas to achieve program objectives, tax reforms be part of program design. Efforts to reduce fiscal imbalances in the context of inadequate and inefficient tax systems are likely to focus excessively on immediate revenue-increasing measures which can have an adverse medium-term effect on exports and/or growth, and lead to over-emphasis on reductions in investment expenditure. Furthermore, the effect on deficits of expenditure cuts, if carried out, is more predictable than the effect of revenue measures.

These comments should not be misinterpreted to suggest that efforts to reduce fiscal imbalances should be pursued at a slower pace. Quite the contrary. Efforts to reduce such imbalances can often be enhanced, both by expenditure cuts and, particularly in the medium-term, by a broadening of the tax base, which may also allow for cuts in marginal tax rates.

There are, of course, a range of cases where tax reform has been a part of a Fund-supported program. The 1981 Korean standby with the Fund provides one example. Mauritius is a case where tax reform has been pursued with IMF technical assistance. Although commitments were not incorporated in the 1983-84 Fund program, action was taken which was then reported in the subsequent letter of intent. What is important is not so much that tax reform be incorporated routinely into Fund programs, but that tax reform be given appropriate consideration and priority in the range of policy instruments needed to achieve agreed objectives. This cannot always be done in the context of technical assistance. In some cases, it may require precise understandings incorporated into review clauses if we are to be faithful to Article V, Section 3 (a), the provision in the Articles of Agreement from which conditionality springs. In some cases, quantitative targets may be appropriate, or at least firm understandings regarding the timing of procedural steps needed to accomplish changes in tax systems (e.g., submission of a tax reform plan to a legislature).

Financial Sector Reform

Financial sector reform is another area where attention has been given in a number of recent Fund programs. In the program recently agreed between Fund Management and Guinea, for example, a prior action has been the closing of state banks and their replacement with new banks which allow foreign participation. Measures involving the financial public enterprises in the Philippines have been an important part of the current Philippine program, including plans for a broad rehabilitation and reorganization of a number of financial public enterprises.

Financial sector reform is often designed to mobilize savings. Measures to stimulate domestic savings can be critical to the growth and adjustment prospects of a debtor country. Fund efforts to foster the expansion of savings have generally focused on increasing the rate of such savings through interest rate policies that help to assure a positive rate of return. This is appropriate, particularly since in almost half of the cases reviewed, the level of interest rates has been judged to be a contributing factor in the development of imbalances.

In some cases, however, the adjustment of interest rates is not sufficient to encourage savings adequately and to promote an efficient allocation of resources. Further efforts may be needed to allow for the development of private market and public financial instruments, financial institutions, and financial markets in order that the mobilization of savings can be fostered not only by positive real rates of interest, but by an efficient, convenient and diverse array of liquid financial instruments and modern financial institutions.

While the Fund has, to some extent, encouraged the development of financial markets, we should in some cases be more active in helping to design and develop financial instruments that will broaden and deepen financial markets, thereby enhancing the ability of a member's economy to generate savings and investment. The Central Banking Department's work in establishing and reforming Central Banks, and in designing instruments that bring about more efficient implementation of monetary policy, may provide a useful base for further development of our activities in the above areas.

The most appropriate manner in which needed financial market reforms can be incorporated into Fund programs is an issue which requires further attention. Our review of programs which have included measures in these areas suggests that we have not advanced very far in developing methods which can be effective and have broad applicability. In some cases, more explicit language incorporated into review clauses may be appropriate.

Trade Liberalization

Trade liberalization has been an increasingly important part of Fund programs in recent years. In many instances, it is closely linked to the implementation of appropriate exchange rate policy, as well as to the liberalization of domestic prices and the exposure of domestic industries to competitive forces aimed at promoting greater efficiency and growth. Trade liberalization played an important part, for example, in Mexico's extended arrangement, but it has also been incorporated into some recent standbys, such as those of Korea and Morocco.

As with certain other areas of structural adjustment, however, action in this area has often been delayed. This has occurred in spite of the fact that developments leading up to the initiation of Fund-supported programs in many countries in recent years have led to the intensification of restrictions on trade, heightening the need for early liberalization in this area, if the output and employment losses which can temporarily be associated with reductions in absorption are to be minimized. Delays in action in such areas are particularly unfortunate. In cases where trade and payments liberalization are judged to be important to a growth-oriented adjustment process, specific commitments regarding, for example, the shift of imports from quantitative restrictions to tariffs perhaps could be incorporated into programs as performance criteria, or as part of a review clause.

Let me reiterate here that the extent to which measures in this area, as well as a number of other structural areas, will need to be utilized in Fund programs will depend not only on the circumstances of the member, but on the extent to which the World Bank and other multilateral development institutions are actively involved in encouraging needed policy changes in these areas for a particular country.

Labor Market Reforms

Fund programs have generally contained relatively little in the way of targets or commitments in the labor market field. In fact, background information and data on labor markets, such as wage rates, employment shifts, legislative developments and labor practices, have been rather scarce in staff documents. In fact, important data may not be available even to the authorities of some member countries. Yet the staff background paper cites a few interesting examples where labor rigidities have evidently impeded economic adjustment and sustainable growth. For example, the staff refers to a problem of internal mobility of labor in connection with programs in Hungary and Guinea, to guaranteed public employment commitments in Mali, Senegal and Somalia, and to labor tenure laws in Mali and Senegal. Also, wage indexation difficulties have been identified in Brazil, Barbados, Peru and elsewhere.

It is not clear how far the Fund can or should go toward addressing these problems, or exactly what priority to give to them. But the existence of these rigidities and their adverse effects on adjustment and growth argue for some attention by the Fund to this area. We might begin by looking into the adequacy of labor market data, and linkages between labor market rigidities and impediments to growth. This could, in particular cases, lead to the possible inclusion in Fund programs of some structural measures to deal with problems which may be identified. This is yet another area where Fund/Bank collaboration is likely to be important.

Public Enterprise Reform

Fund-supported programs have given increasing attention to the need to improve the efficiency of the public enterprises and reduce their drain on government budgets. Public enterprise pricing policies have been key in this respect, with pricing more closely related to the scarcity of goods and services not only strengthening the fiscal position, but promoting a more efficient allocation of resources and providing appropriate incentives to producers and consumers.

Various techniques have been used by the Fund to encourage such changes. Often, specific changes in particularly important commodities or public services have been secured as prior actions. In other cases (e.g., recent standbys with Yugoslavia), public sector price liberalization has been part of a generalized reduction in the degree of price control.

Many of the comments made in the staff paper, and earlier in my statement concerning automatic pricing policies more generally, are applicable to public sector pricing in particular. The 1985 standby with Uruguay embodies an approach which we believe could be more broadly applied, and could assist member countries in their efforts to avoid a situation where inadequate pricing changes during an earlier stage increase the need for large pricing changes in sensitive commodities or public services at a later stage. In Uruguay's program, there is a commitment to automatic adjustments of public enterprise pricing at intervals of no more than four months in order to assure a targeted surplus for the enterprises. This commitment is embodied in the Memorandum of Understanding, and is specifically cited as a policy to be reviewed.

Parastatal pricing is only one aspect of efforts by member countries to improve the efficiency of these entities. Various additional efforts are called for in many cases to improve their operational performance. These measures can include steps to strengthen managerial capabilities directly, by case-by-case study and implementation of measures to streamline management and improve operating procedures. The Fund probably should not be expected to develop detailed proposals in this regard, since the World Bank has developed considerable expertise in this area. Nonetheless, the Fund can play a role in encouraging managerial reform of some public enterprises, especially in the financial sector. Furthermore, managerial studies and reforms that are best carried out by the World Bank, in the area of public utilities for instance, can be supported by the Fund by the inclusion in a review clause of an expectation that a given study will be completed or a program of reform begun by a specified date. An example is the present arrangement with Mali, which requires the first review to include understandings on measures pertaining to public enterprises. The letter of intent lists actions to be taken in individual entities and provides indications that discussions are to continue with the World Bank on a sectoral reform program, with implementation expected around the time of the first review.

In cases where urgent reduction of parastatal losses is required, a more general approach can be to subject these firms to market tests, thus increasing the responsiveness of management to market signals. By working with a member to indicate to public entities that their profitability is a key factor in determining managerial remuneration, or even their continued existence as public entities, the Fund can promote rapidly improved performance. Related to this is the incentive effect of limiting access to fiscal transfers or banking sector credit. By reducing the capability of inefficient public enterprises to receive outside funding, incentives are created to contain costs by more efficient management or even reduced payrolls. Such an approach can serve the dual purpose mentioned earlier of limiting fiscal deficits or credit expansion, while increasing the efficiency of resource utilization in the economy.

The standby arrangement with Argentina provides such an example, wherein mention was made in the letter of intent of limits on government transfers to, and the monitoring of, expenditures of the enterprises. While in this case these measures were not specifically cited in the review clause, the review was to focus on fiscal policy, thus encompassing transfers to the enterprise sector. In other arrangements, such as the present one with Jamaica, the performance criteria included specific limits on net domestic credit to some selected public entities.

A supplementary approach that has been utilized in a number of Fund programs addresses the issue of parastatal efficiency by suggesting or requiring some degree of privatization. This is an area where, perhaps, the World Bank can provide the needed expertise in identifying those firms that appropriately could be privately run, especially those that do not produce true public or strategic goods or services. This is, naturally, a sensitive subject, and some may view it as too microeconomic in character for the Fund to become involved. Nonetheless, there have been several instances in which Fund programs have included as prior actions, or in review clauses, measures on future commitments to divest or even close specific public enterprises. This approach appears to be taken in those cases where substantial losses can be attributed directly to individual firms, and where the services provided by them could be provided by a private enterprise. In several cases, a national airline has been identified as a major drain on public resources, and a clear case has been made for private sector provision of the service.

These various examples serve to illustrate that, in fact, the Fund already utilizes a variety of pragmatic methods to encourage improved performance of public enterprises. While the World Bank can, perhaps, take the lead on micro-oriented reforms, the Fund does have available the means of enhancing Fund/Bank collaboration in this area and of supporting structural reforms that the Bank may formulate. Finally, the Fund can take a number of steps to increase the financial viability of these firms, thus contributing to increased efficiency of resource utilization.

Foreign Direct Investment

The reductions in net new international bank lending which have occurred in recent years have increased the need for more non-debt creating capital flows to debtor countries. This is a widely held view, but policies in many debtor countries regarding foreign direct investment remain highly restrictive, discouraging equity flows. Secretary Baker highlighted in his Seoul speech the need for "market-opening" measures to encourage foreign direct investment and capital inflows. As indicated above, he further stated that "the Fund should give higher priority to... opening economies to foreign trade and investment."

The Fund has historically not played a significant role in this area, for reasons related in part to the mandate of the Fund. The World Bank has also not played a particularly active role in this field, although its involvement has often been greater than that of the Fund, and the impending establishement of the Multilateral Investment Guarantee Agency (MIGA) should strengthen its capacity to promote policy change in this area. It may be that the 1980 report prepared by the Development Committee's Task Force on Private Foreign Investment, and the subsequent 1983 IFC Study of Investment Incentives and Performance Requirements, as well as the Fund's own study of June 1984 (SM/84/145), could be re-examined to provide some guidance in this field.

In any case, the need for comprehensive Fund programs, and the increasing importance which the international financial community has placed on changes in this area, all suggest that the Fund would be remiss if it did not consider developing -- in support of and in conjunction with the World Bank as appropriate -- some role in this area.

In a few recent cases, Fund programs have, in some way, embodied some references to liberalization of foreign direct investment. For example, in Ecuador's program, progress in this field is mentioned in the staff report, but not in the letter of intent or memorandum of economic policies. In the case of Korea, liberalization objectives and plans are actually included in the authorities' memorandum of understanding and progress was to be examined as part of a program review. More generally, some of the aspects of foreign direct investment policies which may be worthy of review and possible modifications include restrictions on incoming direct investment, limits on profit remittances, local content and export performance requirements, and the potential for an increase in equity participation limits. Whatever may prove to be the best procedure for Fund involvement in this complex field, there is a case for a more active role in the context of the Fund's increased emphasis on economic growth with a sustainable external position.

Prolonged Use and Issues of Program Design

Prolonged users of IMF resources continue to be a serious problem which threatens the revolving character of Fund resources, and which has been a factor in the arrears problems which have developed in the Fund in recent years. I have not focused my statement on this issue, not because it is unimportant, but because the lessons learned from our review of programs in connection with this Board meeting -- drawn to a significant extent from the countries that are prolonged users of Fund resources -- are lessons with broad applicability for the Fund's policies regarding the use of its resources, and not just for "prolonged users."

A particular point that emerges from the cases of prolonged use which does perhaps merit special mention is the lack of early and comprehensive corrective policy steps on the part of many member countries. This has posed problems regarding the achievement of the countries' economic objectives of adjustment and growth. It also poses major questions about whether programs which are too heavily based on demand restraint, and are inadequately designed to support both adjustment and growth in a medium-term horizon, are consistent with our mandate -- to adopt policies on the use of the Fund's general resources that will assist members to solve their balance of payments problems in a manner consistent with the Articles of Agreement, and which will establish adequate safeguards for the temporary use of the general resources of the Fund. Our experience with some cases relating to prolonged use, in fact, reminds us that all programs should meet a dual set of tests in order to be acceptable: that they are adequate to help solve a member's payments problem over the medium-term in a manner conducive to growth; and that they provide an adequate assurance to the Fund that the policies can, if implemented, provide a framework for the repayment of the purchases from the Fund on schedule.

On the particular options put forward in the staff paper for possible use in cases of prolonged use, I would make the following brief comments:

-- Shadow programs. Could have a limited role to play in special circumstances, although it must not be seen as an adequate substitute for a fully acceptable set of policies;

-- Access. While I would agree that strict rules on access by prolonged users are not appropriate, I continue to stress the importance of taking into account, inter alia, a member's past record, the strength of the proposed program, and a member's outstanding use of Fund credit in determining the appropriate access level.

-- Phasing. Backloading can be an effective and appropriate device to help safeguard the revolving character of Fund resources in cases of prolonged use.

-- Precondition and Performance Criteria. Early action is obviously critical in such cases, but may be equally important in other cases.

Conclusion

The above examples and suggestions are not put forward as immediate, definitive proposals for change which involve amendment to our guidelines for conditionality. As I indicated earlier, I believe that the changes which need to be made in Fund conditionality are more evolutionary than revolutionary, and I would agree with the staff that needed changes can be accomplished within the context of the current guidelines for conditionality. In reviewing those guidelines, one can only have admiration for the farsightedness of our predecessors who developed them in 1968, and amended them in 1979. I see no need to amend them further at this stage. But within the context of those guidelines, we must remain alert to the need to adapt our practices and procedures while remaining committed to the basic purposes and objectives of the Fund.

Our political leaders are virtually unanimously stressing the importance of growth. The "Program for Sustained Growth," put forward by Secretary Baker, will require the active participation and cooperation of all parties if it is to succeed. The external financing which is clearly essential to the restoration of sustainable growth and balance of payments adjustment cannot be expected to materialize without clear, broad-based policy change. And even if it did, the economic benefits would be short-lived, absent needed policy changes.

The Baker Initiative has helped focus the attention of the international community on the need for growth. But the awareness of the need for policies to encourage growth in many countries preceded the Baker Initiative. As Chairman Volcker has recently stated, a new temper of opinion has been emerging in many debtor countries, forged out of recent adversity, in support of growth-oriented outward looking, liberal economic policies, along with a renewed effort to reduce inflation and fiscal deficits.

It is our challenge to help policymakers translate these objectives into reality. Growth for most economies must come primarily from within -- from domestic savings, domestic investment, and domestic policies -- but it is clear that the international community must support those efforts, both with financing and with policy advice.

This institution has a role to play in both areas, although the financing we can and should provide is temporary and modest in amount. It is the Fund's ability and mandate to provide policy advice that gives it a special place in the international financial system. The question is how best we can go fulfill this role. It is not sufficient to express verbal support for the concept of growth, and then avoid the effort to develop mechanisms within this institution which can help our member countries achieve this important objective. We must continuously develop the "tools of our trade" to strengthen the effectiveness of the Fund in promoting sustained world economic growth. It is with that spirit in mind that I put forward the views and ideas in this statement, and hopefully within that same spirit that they will be received.

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Dear Paul,

I attach a copy of the draft message which I intend to send to the President of Colombia.
Please call me if you have any comments

Sincerely

Jacques

With the Compliments of

March 27. 85

Jacques de Larosière

Managing Director

Thk PAV

TELEX

DEAR MR. PRESIDENT:

I THANK YOU FOR YOUR LETTER WHICH DISCUSSED COLOMBIA'S ECONOMIC SITUATION AND POLICIES, AND THE RELATIONSHIP BETWEEN YOUR COUNTRY AND THE FUND.

THE ARTICLE IV CONSULTATION MISSION THAT YOU HAD REFERRED TO IN YOUR LETTER RECENTLY PROVIDED ME WITH ITS PRELIMINARY CONCLUSIONS. I WAS ENCOURAGED BY THE MISSION'S APPRAISAL OF YOUR GOVERNMENT'S ECONOMIC POLICIES. THE EMPHASIS GIVEN IN YOUR ECONOMIC PLANS TO THE ACHIEVEMENT OF A SIGNIFICANT REDUCTION IN THE PUBLIC SECTOR DEFICIT AND TO THE STRENGTHENING OF THE BALANCE OF PAYMENTS IS CERTAINLY WELL PLACED. THE MEASURES ALREADY ADOPTED AND IMPLEMENTATION OF THE PLANNED ECONOMIC POLICIES SHOULD HELP TO CREATE THE CONDITIONS FOR SUSTAINED GROWTH.

IN MY JUDGEMENT, IT WOULD BE USEFUL AT THIS JUNCTURE TO DEVELOP A DETAILED PRESENTATION OF THE QUANTITATIVE ASPECTS OF COLOMBIA'S PROGRAM AND OF ITS PHASING THROUGH THE YEAR, WHICH WOULD MAKE IT POSSIBLE TO FOLLOW CLOSELY ITS EVOLUTION.

I WISH YOU SUCCESS IN THE IMPLEMENTATION OF COLOMBIA'S ECONOMIC PROGRAM, AND I LOOK FORWARD TO MEETING WITH YOU NEXT WEEK TO CONTINUE OUR DISCUSSION OF THESE POLICY ISSUES.

SINCERELY YOURS.

Paul A. Volcker

April 4, 1985

Jack:

As per our conversation.

Mr. de Larosiere
IMF

I appreciate the detailed description of the program developed by the authorities of Colombia contained in your letter of _________. In my judgment, the measures that you have decided upon with respect to fiscal, monetary, exchange rate, and trade policies are fully appropriate to your circumstances, and should work toward promoting internal and external stability.

I understand that your plans do not envisage any use of IMF resources and no request has been made to us for any financial asssistance. However, arrangements are nearly complete to borrow from the IBRD for certain purposes, and significant financing is anticipated from commercial banks to help finance parts of your program. In that connection, you have requested that the IMF review and monitor at roughly quarterly intervals the progress Colombia makes toward implementing the macro-economic aspects of your program, and that we report to the lending banks as to your progress in conforming to the program that you have developed. You also suggest such reviews might be closely coordinated with reviews undertaken by the World Bank of aspects of your program of particular interest to them.

I should say, first, that such arrangements -- monitoring a program that has been developed without IMF participation and which does not envisage IMF financial assistance -- would be unique in the experience of the IMF. However, I also believe your program justified support, and I would like to meet your request so long as it can be reconciled with our internal procedures and requirements. Specifically, I believe to undertake such a commitment on our part, I must present your program to my Executive Board so that its members can formally approve the approach. Accordingly, I am fully prepared to present the program you have developed to the Executive Board, recommend to it that the program be formally approved, and that the monitoring arrangement you request be authorized. I would also envisage that our review would proceed in close coordination with the World Bank.

I also believe that such approval by the Board would, by its nature, imply that Colombia would, so long as the program is being implemented as planned, also be eligible to draw upon Fund resources in amounts consistent with established guidelines relative to quota? should you wish at some later date to avail yourself of such a facility. With Executive Board approval and your agreement, I would be prepared to so inform your bank lenders, and would be prepared to keep them informed of your continued eligibility after each review interval.

In conclusion, Mr. Minister, I believe the program you have developed entirely at your own volition is appropriately designed to meet the economic needs of Colombia. On that basis, and with Executive Board approval, I would welcome the opportunity to support your efforts by participating in a regular review procedure, informing your bank lenders as described above as to your eligibility to borrow from the IMF.

Such an arrangement, which would be without precedent for the IMF, strikes me as a mutually constructive opportunity for us to work with you, with the IBRD, and lending banks to support your program intentions.

Note - this seems to conform to the statement in the "booklet" distributed at the breakfast, which said something about around IMF money.

Paul A. Volcker

July 27, 1984

Dear Jacques:

Just a few editorial suggestions in the direction of not sounding too insistent on a complete package.

Paul

P.S. I hope you can read this.

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Dear Paul,

This is the letter we just talked of on the phone

Sincerely

Jacques

With the Compliments of July 24-84

Jacques de Larosière

Managing Director

MTD (V) 7/18/84

Dear Mr. Minister:

Thank you for your letter of June 25, 1984, which was given to me by Messrs. Mayobre and Marcano. The statement on policies that it contained is a most useful step in the formulation of the Government's economic strategy. It confirms what has been reported to me by Mr. Hardy, who was chief of the recent Article IV consultation mission to Venezuela.

I was pleased to read in your statement that the Government of Venezuela is intending to carry the process of policy formulation one stage further by establishing a quantified economic program that would translate the policies that have been adopted into well defined actions and goals. I would suggest that to the extent possible, this quantified program be complemented by a more specific ~~plan~~ schedule for — carrying out your plan for reducing reliance on measures such as multiple exchange rates, import and price controls, and subsidized interest rates, ~~given the obvious costs of maintaining such practices~~. ~~The~~ I feel more specific formulation and execution of such a program would be extremely useful to you in assuring the coordination and coherence of economic policies during the coming period. and measuring progress, as well as examining the choice of sequencing your program permanent.

We will of course be reporting on the general policy stance of the Venezuelan Government in the forthcoming Staff Report on the Article IV Consultation, which will cover the issues included in your statement on policies. We could perhaps think of issuing the statement to the Executive Directors for their forthcoming discussion on Venezuela if it could be accompanied by the quantified set of economic goals and targets your government is preparing, together, if possible, with a specific plan for reducing reliance on distorting measures. Our present work schedule calls for having the discussion in the Executive Board at the end of August, and thus we would need to present your statement and other policy intentions to Executive Directors no later than the third week of August, if they are to have the opportunity to make use of such material in preparing their comments on Venezuela. In my view it would be useful if we were to have further contacts at the technical level as you are formulating your quantitative program and complementary measures, particularly since the Fund staff is concerned that your fiscal estimates for 1984 are somewhat overoptimistic and that the preliminary monetary program assumes an unduly strong growth in the demand for liquidity on the part of the general public.

11.77

As I have already indicated to you on a previous occasion, the Fund stands ready to be of assistance to your Government in addressing Venezuela's economic problems and in arranging the refinancing of the external debt. Of course, I would be happy to discuss with you the modalities of any such assistance.

Yours sincerely,

J. de Larosiere

Dr. Manuel Azpurua Arreaza
Ministro de Hacienda
Ministerio de Hacienda
Caracas, Venezuela

Orig. to
Truman

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

March 27. 84

Dear Paul,

This is the "memo"
just received from
Dr. Prebisch

Sincerely

Jacques

With the Compliments of

Jacques de Larosière

Managing Director

RAÚL PREBISCH

MAR 27 1984

26 March 1984

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Larosiere:

Let me reiterate my thanks for your cordial reception on Friday.

As I have just told you on the phone, I am sending enclosed a memo to pave the way for the resumption of our conversations this coming Wednesday.

Yours sincerely,

Raúl Prebisch

CONFIDENTIAL

26 March 1984

To: Mr. Jacques de Larosière
Managing Director, International Monetary Fund

From: Raúl Prebisch
Personal Representative of the
President of Argentina

In view of the next meeting, and in order to clear the way, it may be useful to present some reflections.

Let me first explain again the philosophy behind the anti-inflationary programme of the government.

The budget deficit is the main factor of inflation. And its gradual reduction would bring a decline in the rate of increases in prices and correspondingly in the rate of interest.

The decline in credit creation, due to the reduction of the deficit, would allow for a prudent credit expansion for the working capital of enterprises, so contributing to the reactivation of the economy.

As explained in the letter of the President of Argentina, the average deficit will be 8% of the gross product in 1984. This average obviously does not present the tendency for improvement in the situation. This tendency results very clearly from the fact that, according to our estimates, the deficit will fall from 17% in the last quarter of 1983 to 6% in the first quarter of the next year. At the same time, the payments of the Central Bank to the banks will fall correspondingly from 10% to 5%. In this figure the capital loss is included.

In order to support this reactivation, the programme has estimated an increase of around 12% of this year's imports in real terms.

If emphasis is put on the need to rebuild imports in a moderate way, it is due to the fact that its readjustment has already occurred drastically. Indeed in 1983, imports were very low in comparison with previous years, due both to the fall in economic activities and the use of inventories.

Increase in imports envisaged in the government programme is an essential point for the reactivation of the economy. Indeed the figures included in the President's letter are based on a growth rate of 5%, and if this does not happen, it would dislocate the whole programme.

/2..

Regarding wages and salaries in the public sector, the programme envisaged it at a real increase of between 6 and 7%. However there is a growing consciousness that the increases in real terms in the second half of 1983, as well as the beginning of this year, would make it extremely difficult to improve wages and salaries in the public sector as previously estimated.

To see this matter in a proper perspective, one has to consider the considerable deterioration that wages and salaries have had during this decade.

Reference to indexation,it may be agreed on the need to eliminate it. Indeed, if adjustments have to be based on previous inflation, and not on prospective inflation, this would contribute to perpetuate inflation. Therefore, some corrections are necessary to introduce in this matter.

For Argentina loans to fall, by the end of this month, into the category of "non-performing" will be not only a serious blow to the financial community and the prestige of the country, but also internally a very demoralizing factor that would shake the confidence of a government that is dedicated to fight against inflation and strengthen the economy on a basis of great potential for growth and social improvement.

An emergency solution could be found to avoid this critical development. This emergency solution was clearly in the hands of the government a few days ago when it decided to sell two frigates for $500 million. The Iranian government made a firm offer with full payment in cash. However the American Embassy suggested to the government to abstain from this operation mentioning the possibility of finding other buyers. A high official of the Embassy informed that Tunisia and Italy were interested. On this basis, it may be possible to have a bridge loan between now and the date of the filfillment of this operation. The proceeds of this loan should be not linked necessarily to the payment of arrears, but rather to the strengthening of the monetary reserves of the Central Bank so as to make it possible to use these low reserves for paying these arrears.

Independently of this, hopefully the discussions initiated on Friday could pave the way for drafting the letter of intention. Meanwhile, as the banks are suggesting in Punta del Este, it may be possible for the IMF to give a preliminary sign to them that could facilitate an early disbursement of the funds necessary to pay the arrears, so avoiding a critical situation.

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are not consistent with the correction of external imbalances, and therefore risk creating exchange rate instability. The flexibility of monetary policy is also severely limited by external constraints. In my view, it remains imperative to work toward a greater convergence of fiscal policies.

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXECUTIVE DIRECTOR

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1983 MAY 25 PM 2:58

RECEIVED
OFFICE OF THE CHAIRMAN

CABLE ADDRESS
INTERFUND

25 May 1983

#1057

Dear Paul:

The following is the cable which we received from Wells Fargo:

"Please pass this telex to Dr. Carlos Langoni, President, Banco Central do Brasil at the earliest possible time.

Re: Petroleos Brasileiro (PETROBRAS)
Syndicated Banker Acceptance
Facility

During the period from 11 April 1983 through 23 May 1983, six tranches under three separate banker acceptance agreements for Petrobras have matured totalling U.S. Dlrs. 268 MM. The purpose of these facilities was to finance the importation of crude oil and other oil by-products. As of this date, five of these tranches are past due and the expectation of the sixth tranche becoming past due on 23 May is a distinct possibility.

Wells Fargo Bank, as agent in these agreements, has discussed the matter of the past due acceptances with senior officials of Petrobras and Banco Central do Brasil with the result that Wells Fargo approached the syndicate members in the above agreements (44 banks) on 9 May 1983 with the proposal to extend these facilities for another 180 days. Final responses were requested from the banks by 17 May 1983. We should point out that the existing 44 banks represent a geographic distribution covering Japan, major countries of Western Europe and the United States.

Of critical importance to Banco Central do Brasil and Petrobras has been the response of the banks to this proposal and it is for this purpose that Wells Fargo Bank, as agent, is sending this telex to you.

With over 2/3 of the banks having responded, it is clear that a 100 pct agreement to this proposal will not be forthcoming with the result that
(1) the acceptances will remain past due
(2) Petrobras will remain in default under these agreements, and
(3) cross defaults will exist under other agreements, including the Project I New Money Agreement.

Furthermore, Petrobras has U.S. Dlrs. 200 MM of banker acceptances coming due on 21 June 1983 under another agreement of 19 banks (Wells Fargo Bank as Agent). However, this agreement has availability for further re-borrowing provided no defaults exist. Clearly the existing past due acceptances will not permit further drawdowns under this agreement until the past due acceptances are paid. We would like to point out the following comments from the banks in the above agreements which reflect their concerns and reasons for not agreeing to an extension of the above facility.

Firstly, there is the fact that Banco Central do Brasil has not made available the foreign exchange to pay acceptances which had financed an import critical of the needs of Brazil.

Secondly, it is known that Petrobras is receiving foreign exchange today for oil imports at this time and in light of this, an effort to provide for an orderly liquidation of the existing acceptances should have been proposed by Banco Central do Brasil rather than a perceived indifference to a repayment.

Thirdly, other acceptances created with Brazilian banks under Project III Guidelines are being paid as agreed.

Therefore, banks find it difficult to accept the continued non-payment of acceptances.

In summary, we believe it is in the best interest of Brazil and the Banco Central do Brasil to immediately pay the U.S. Dlrs. 229,760,000 past due and a U.S. Dlrs. 38,240,000 coming due on 23 May under the above agreements in an orderly and expeditious matter prior to 16 June 1983 to (1)permit further usage under the U.S. Dlrs. 200 MM acceptance facility, (2) to avoid a default under that agreement, (3) avoid default under Project I Agreements. Wells Fargo Bank, as agent, is willing to assist, however, you must be aware that under the Agreements we are bound to act on behalf of the syndicate in a manner which reflects their intentions from both a legal and business perspective.

Moreover, we welcome from you comments and specific proposals on the resolution of the past due acceptances and urge you to give this matter your immediate attention. We look forward to your response.

Regards,

Lewis Coleman, Executive Vice-President
Michael Rossi, Senior Vice-President
Int'l. Banking Group"

Kind regards,

Yours sincerely,

Alexandre Kafka

The Honorable
Paul Volcker, Chairman
Federal Reserve Board of Governors

To the G-10 Deputies

I am enclosing a revised draft communiqué. Aside from some deletions, the principal changes introduced in response to suggestions made by the Deputies are underlined. Alternative texts are indicated in square brackets.

Whenever the suggestions made by the Deputies were in conflict with one another, they were not incorporated in the revised draft.

Dini

(Lamberto Dini)

Washington D.C.
September 23, 1983

Draft Communique of the Ministerial Meeting

of the Group of Ten

(Washington, September 24, 1983)

1. The Ministers and central bank Governors of the ten countries participating in the General Arrangements to Borrow (GAB) met in Washington on September 24, 1983 under the Chairmanship of Mr. Jacques Delors, Minister of Economy, Finance, and Budget of France. The Managing Director of the International Monetary Fund, Mr. J. De Larosiere, took part in the meeting, which was also attended by Mr. F. Leutwiler, President of the Swiss National Bank, Mr. E. Van Lennep, Secretary-General of the Organisation for Economic Cooperation and Development (OECD), Mr. G. Schleiminger, General Manager of the Bank for International Settlements, and Mr. F. X. Ortoli, Vice President of the Commission of the European Communities.

2. The Ministers and Governors exchanged views on the world economic situation. They were generally encouraged that recovery, which had stemmed in part from lower inflation, was under way in the industrial world. Although growth profiles still appeared to be rather diversified, with a strong upturn in North America and more moderate performances in Japan and in Europe, prospects for 1984 pointed to a strengthening of the upward trend for real output growth in industrial countries. However, unemployment remained extremely high in many industrial countries. The Ministers and Governors felt that the overriding objective at the present juncture was to follow

policies that would assure sustainable non-inflationary growth world-wide.

The attainment of such objectives hinged crucially upon interest rates, whose reduction from the present very high levels would make an important contribution to the revival of business investment and consumer spending. To this end, they emphasized the importance of the continued pursuit of monetary policies consistent with consolidating and extending the progress already made toward better price stability, of credible action to bring about a sustained reduction in fiscal deficits over the medium term, and continued attention to structural policies designed to improve the functioning of goods and labor markets. Such policies would also play an essential role in bringing about more stable conditions in foreign exchange markets, reducing tensions in the financial system, and facilitating adjustment in debtor countries.

3. The Ministers and Governors were also encouraged by the significant degree of adjustment that had already been achieved in developing countries, and they urged continued perseverance in the adjustment efforts, as an essential element in the resumption of output growth and of private capital inflows.

The Ministers and Governors were also of the view that a renewed effort by all countries to resist domestic protectionist pressures and to remove trade restrictions would greatly contribute to international adjustment.

In addressing the world financial situation, the Ministers and Governors noted that the cooperation among borrowing countries, monetary authorities, international institutions and commercial banks had played a major role in preserving the stability of the system in times of intense pressure. They noted the persistence of strains in certain areas and agreed to monitor the situation closely and to be prepared to take appropriate action as necessary.

4. The Ministers and Governors exchanged views on policies governing access to the Fund's resources and the Fund's liquidity situation. They reviewed the broad principles that should govern access policies after the entry into force of the increased quotas. They stressed the need for Fund policies to continue to be guided by the principle of preserving the monetary character of the institution, which in the present situation implied a careful husbandry of the Fund resources. They noted that the Fund's liquidity position had come under strain, and stressed the urgency for all countries to complete the statutory procedures for ratifying the proposed quota increases under the eighth general review of quotas and the enlargement of the GAB. In this connection, the Ministers and Governors welcomed the conclusion of the borrowing agreement between Saudi Arabia and the Fund in association with the GAB. [They also agreed to monitor closely the evolution of the Fund's liquidity and reaffirmed readiness to consider such

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appropriate measures as may be needed.] ~~[They underscored the importance of safeguarding the Fund's liquidity position recognized that to this end additional borrowing by the Fund may be necessary in the near future.]~~

They stressed that the Enlarged Access Policy (EAP), which had been adopted in 1981, was a temporary instrument for dealing with an exceptional global balance of payments situation, and emphasized their belief that the EAP should be phased out over the next few years. Access under the Fund's special facilities should likewise be scaled down as a result of the new quotas. They noted that the world economic recovery and successful adjustment efforts should facilitate this. The amounts to be made available under the EAP, should be set by striking an appropriate balance between members' temporary balance of payments needs and the availability of financing to the Fund. They believed that access limits should be reviewed annually and be adapted to changing circumstances and prospects.

5. The Ministers and Governors had a preliminary exchange of views on the conditions necessary to improve the functioning of the international monetary system.

~~[They instructed their Deputies to identify the areas that may be the subject of analysis and to report to them at their next meeting.]~~

~~[They instructed their Deputies to begin examining issues relating to global liquidity, the effects of exchange rate fluctuations on the~~

world economy, and the role of the Fund, in promoting convergence and adjustment, and to report to them at their next meeting.]

6. Mr. Giovanni Goria, Minister of the Treasury of the Italian Republic was elected Chairman of the Group of Ten for the following year.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

November 10, 1983

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
Washington, D. C. 20431

earlier!

Dear Jacques:

Just to confirm, the dinner for Chairmen and Deputy Chairmen of the twelve Federal Reserve Banks on December 1 will start with a reception at 6:00 PM, dinner at 7:00 PM, and finish about 9:30 PM. It is held in our big dining room in the Martin building -- that is the new one, where my dining room is.

Attendance will be a maximum of 24 Chairmen and Deputy Chairmen, plus the Board and a few staff -- maybe 40 in all. The proceedings are entirely informal. Talk for 15 minutes or so about what you think they should hear, and take questions for 15 minutes or so longer.

I'm attaching a list of the Chairmen. They cover a rather broad spectrum, obviously reasonably well informed and influential in their regions or beyond, but not experts on the IMF!

Many thanks for taking the time. Skip the reception or not, and you are forbidden to prepare more than 5 or 10 minutes.

Regards,

Paul

Attachment

CHAIRMEN AND DEPUTY CHAIRMEN OF THE FEDERAL RESERVE BANKS

1983

Bank	Chairmen	Deputy Chairmen
Boston	1/Mr. Robert P. Henderson Chairman and Chief Executive Officer Itek Corporation 10 Maguire Road Lexington, Massachusetts 02173	Mr. Thomas I. Atkins General Counsel National Association for the Advancement of Colored People 186 Remsen Street Brooklyn, New York 11201
New York	Mr. John Brademas President New York University New York, New York 10012	Mrs. Gertrude G. Michelson Senior Vice President R. H. Macy & Co., Inc. New York, New York 10001
Philadelphia	* Robert M. Landis, Esquire Chairman of the Board Office of the Secretary Federal Reserve Bank of Philadelphia Box 66 Philadelphia, Pennsylvania 19105	Mr. Nevius M. Curtis President and Chief Executive Officer Delmarva Power and Light Company P.O. Box 231 Wilmington, Delaware 19899
Cleveland	Mr. J. L. Jackson Executive Vice President and President - Coal Unit Diamond Shamrock Corporation 1200 First Security Plaza Lexington, Kentucky 40507	4/Mr. William H. Knoell President and Chief Executive Officer Cyclops Corporation 650 Washington Road Pittsburgh, Pennsylvania 15228
Richmond	3/Mr. Steven Muller President The Johns Hopkins University Charles and 34th Streets Baltimore, Maryland 21218	Mr. William S. Lee, III Chairman of the Board and Chief Executive Officer Duke Power Company P.O. Box 33189 Charlotte, North Carolina 28242
Atlanta	Mr. William A. Fickling, Jr. Chairman and Chief Executive Charter Medical Corporation P.O. Box 209 Macon, Georgia 31202	4/Mr. John H. Weitnauer, Jr. Chairman and Chief Executive Officer Richway P.O. Box 50359 Atlanta, Georgia 30302

* (Material of a confidential nature should be marked: TO BE OPENED BY THE ADDRESSEE ONLY)

1/10/83

CHAIRMEN AND DEPUTY CHAIRMEN OF THE FEDERAL RESERVE BANKS

1983

Bank	Chairmen	Deputy Chairmen
Chicago	4/Mr. John Sagan Vice President - Treasurer Ford Motor Company The American Road Dearborn, Michigan 48121	Mr. Stanton R. Cook President Tribune Company 435 North Michigan Avenue Chicago, Illinois 60611
St. Louis	4/Mr. W. L. Hadley Griffin Chairman of the Board Brown Group, Inc. P.O. Box 29 St. Louis, Missouri 63166	Mrs. Mary P. Holt President Clothes Horse 5 Fields Building University Avenue at "R" Street Little Rock, Arkansas 72207
Minneapolis	2/Mr. William G. Phillips Chairman and Chief Executive Officer International Multifoods 1200 Multifoods Building Minneapolis, Minnesota 55402	Dr. John B. Davis, Jr. President 1600 Grand Avenue Macalester College St. Paul, Minnesota 55105 (MAILING ADDRESS: 1644 Summit Av St. Paul, Minnesota 55105)
Kansas City	Mr. Paul H. Henson Chairman United Telecommunications, Inc. (MAILING ADDRESS: United Telecom, Box 11315, Kansas City, Missouri 64112)	Dr. Doris M. Drury Professor of Economics: Director of Public Affairs Program - University of Denver 10879 E. Powers Drive. Englewood, Colorado 80111
Dallas	Mr. Gerald D. Hines Owner Gerald D. Hines Interests 2100 Post Oak Tower Houston, Texas 77056 [MAILING ADDRESS Federal Reserve Bank of Dallas, Station K, Dallas, Texas 75222)	Mr. John V. James Chairman of the Board Dresser Industries, Inc. P.O. Box 718 Dallas, Texas 75221
San Francisco	4/Mrs. Caroline L. Ahmanson Chairman of the Board Caroline Leonetti, Ltd. c/o Mrs. Howard Ahmanson 9500 Wilshire Boulevard Beverly Hills, California 90212	Mr. Alan C. Furth President Southern Pacific Company 1 Market Plaza San Francisco, California 9410

1/ Chairman, Executive Committee, Conference of Chairmen
2/ Vice Chairman, Executive Committee, Conference of Chairmen
3/ Member, Executive Committee, Conference of Chairman
4/ Member, Employee Benefits Committee

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

October 7, 1983

Dear Paul

After the discussion on October 3 by the Executive Board of the Fund's current liquidity problem, I thought it was advisable to keep the G-10 Governors completely informed. Accordingly, I enclose a copy of a letter to Karl-Otto Pohl which sets out the present state of affairs. I look forward to being able to discuss this matter with you in Basle next month.

Sincerely yours,

Jacques

J. de Larosiere

Enclosure

Mr. Paul A. Volcker
Chairman
Federal Reserve System
20th and Constitution Avenue, N.W.
Washington, D.C. 20551

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

October 7, 1983

Dear Karl,

You will be interested in the attached copy of my summing up of the Executive Board's discussion on October 3 of possible measures to conserve the Fund's resources in our present straitened liquidity circumstances.

As you will have been informed by your Executive Director, and as is apparent in my summing up, the Board essentially decided not to take conservation measures at this time in the light of the likelihood that financial resources will become available to the Fund in the near future. The Board felt, however, that it should review the matter in the light of circumstances at the end of November.

Five pending requests for new arrangements which include the use of borrowed resources will proceed in the normal way. In addition, the Executive Board asked me to rescind my instruction to the staff, of September 14, to refrain from initiating any new negotiations involving a commitment of borrowed resources. This I have now done, but the staff are under a clear directive to caution members requesting use of Fund resources that there is no assurance that adequate resources will in the event be available to finance the programs being negotiated.

Executive Directors representing countries in the Basle Group were particularly keen that negotiations should be resumed and, furthermore, several of them confirmed that their countries would participate in a lending operation to the Fund under agreed circumstances.

The stance taken by the Executive Board in this matter, particularly by the Directors representing G-10 countries, seems to imply that the immediate borrowing needs of the Fund will be met soon. I draw comfort from that, as I do from the endorsement in the Interim Committee Communique of my efforts to arrange additional borrowing from official sources to cover the Fund's commitment gap.

The Executive Board has urged me to resume discussions of the matter of a lending arrangement to the Fund with you in Basle in early November, and I understand that this would be convenient from your point of view. I look forward to discussing this with you and your colleagues and very much hope to be in a position afterwards to assure the Executive Board that the Fund can proceed with meeting requests for balance of payments assistance by our members in the full knowledge that it will be able to finance such use of resources.

I am sending a copy of this letter to all other Governors of G-10 Central Banks and to the President of the Bank for International Settlements.

Sincerely yours,

Jacques

J. de Larosiere

Mr. Karl Otto Poehl
President
Deutsche Bundesbank
Postfach 2633
D-6000 Frankfurt 1
Federal Republic of Germany

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

October 4, 1983 - 83/254
Corrected: 10/7/83*

The Chairman's Summing Up at the Conclusion of the
Discussion on Measures to Conserve the Fund's Usable
Resources in Present Circumstances
Executive Board Meeting 83/146 - October 3, 1983

1. A number of Directors indicated during the discussion that they felt directly responsible for the financial policies of the Fund and they attached great importance to the exercise of prudence in the formulation of those policies. I am heartened by that indication, which gives even more importance than usual to the remarks of each individual Executive Director.

2. All speakers recognized that the liquidity position of the Fund is at present extremely strained and that the problem must be approached with the prudence expected of a financial institution like the Fund. But a number of Directors also made the point that we should not overlook the impact of our decisions on the financial system itself, on the catalytic role of the Fund in relation to the financial community in present circumstances, and on the adjustment role that the Fund has undertaken with a number of countries. They noted that both the financial and the policy credibility of this institution must be kept intact.

3. A number of Directors said that they were reasonably confident that the SDR 6 billion borrowing operation by the Fund would eventually be forthcoming, and they based their judgment on a number of elements which they saw emerging from the previous week's discussions. Those were, inter alia, the agreement of the Interim Committee to continue the enlarged access policy in 1984; the statement by President Reagan at the opening of the Annual Meetings, at which he expressed an "unbreakable commitment" to the Fund and to the quota ratification process; the language of the Interim Committee communiqué regarding the immediate borrowing needs of the Fund; and the statements of a number of Ministers and Governors to the effect that their countries would eventually participate in a lending operation to the Fund. In this last respect, I would like to thank those Executive Directors who confirmed or clarified those commitments during today's discussion, including Mr. Wicks, Mr. de Groote, Mr. Lovato, and Mr. Joyce. I am gratified as well by the strong support for management's effort to continue its encouragement of potential contributors, and I have noted your desire that I participate in the forthcoming Basle group meetings with a view to reaching an agreement on a lending operation to the Fund.

4. While fully agreeing on the appropriateness of the steps taken by management on September 14, all Executive Directors who spoke--including all those whose countries are potential contributors in the SDR 3 billion borrowing operation presently under discussion in the framework of the Basle group--accepted that the three cases that had been already agreed upon in principle by management before September 14 could be brought to the Board for discussion. It is fair to say also that most Directors who addressed the issue agreed to treat the two other cases mentioned in the staff report (EBS/83/213) in the same way, noting that agreement had

* Page 3 added.

already been reached with the staff on the main elements of the program before September 14, and that the letters of intent had been agreed with the staff before the end of the Annual Meeting.

5. The Board did not wish to take any decisions at the present stage on the measures to conserve the Fund's usable resources described in the staff paper. In particular, there was no strong support for what some called "changing the rules of the game" at present to respond to a liquidity problem that, in the view of many Directors, is temporary in character. Rather, the Board felt that it should address the issue in the light of the circumstances at the end of November. At that time, the matter would be considered fully in the context of the liquidity position of the Fund and the prospects and developments regarding the quota ratification and borrowing arrangements.

6. All Directors who spoke asked the management to rescind its instruction to refrain from initiating any new negotiations involving enlarged access resources and to resume the process of discussions already begun, even if those discussions involved borrowed resources. Most Directors were confident that few, if any, of such cases under discussion were likely to be brought to the Board before end-November, so that the financing of any programs would be dealt with according to the decisions to be taken at the end of November. However, it was also understood that all negotiations to be resumed or initiated should be conducted in a way that makes it absolutely clear to the authorities that there remains some uncertainty about the availability of Fund resources, so that caution will be required in proceeding with these discussions. Thus, it is understood that, in principle, no agreement formalizing management's acceptance of the substance of any new program will be notified to the authorities, in order to keep the options open for the Board. In the unlikely event that a case were to arise in which there was a real "need" to bring it to the Board before the end of November, management would consult with the Board before hand; and it might then be necessary to devise a contingency clause to be inserted in the agreement that would indicate that at least part of the resources requested by the country would be subject to the availability of financial resources. Such an approach was not a preferred course of action, however, and it is to be hoped that no request will be so urgent that it calls for the management to consult with the Board before the end-November review.

7. With regard to the special facilities, the sense of the meeting was that no special treatment needs to be devised before the end of November; however, after that time, it is fair to say that all options would remain open. A number of Directors strongly made the point that, if and when measures to conserve the Fund's usable resources were to be taken, they should affect all uses of Fund resources, including ordinary resources and special facilities.

8. I noted with great interest Mr. Wicks' suggestion that we should have in the future a yearly assessment of the Fund's borrowing needs for the year ahead, in light of the commitments the Fund is likely to engage in, and to explore ways to cover these borrowing requirements.

9. Finally, I wish to say that the preference of the Executive Board for resuming the process of negotiations toward "new" agreements and dealing fully with the five cases mentioned above would not have been my own preference. Adopting the course of action recommended by the Board will leave less than SDR 4 billion in uncommitted ordinary resources at the end of November, and I would have thought that prudence might have dictated a somewhat more restrained stance. Given the fact that Executive Directors are better placed than I to know the views of their Governors, I would understand the approach adopted by the Executive Board today as implying that the Executive Directors whose countries are involved in the negotiations for lending to the Fund are reasonably confident that the lending operation will eventually be concluded. This is a precious indication for me, which I will keep foremost in mind when, as Executive Directors have urged, I participate in the November meeting of the BIS in Basle.

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1983 SEP 20 PM 6: 35
RECEIVED
OFFICE OF THE CHAIRMAN

September 20, 1983

Dear Paul,

I attach the text of a telex I have today sent to the Chairmen/Chief Executive Officers of the Advisory Group Banks for Brazil inviting them to a meeting in the Executive Board Room of the Fund at 3:00 p.m. on Monday 26 September.

I look forward to seeing you there as well.

Sincerely yours,

Jacques

J. de Larosière

Mr. Paul A. Volcker
Chairman
Federal Reserve System
20th & Constitution Ave. N.W.
Washington, D.C. 20551

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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AS YOU KNOW, WE HAVE JUST REACHED AGREEMENT AT STAFF AND MANAGEMENT LEVEL WITH THE AUTHORITIES OF BRAZIL ON THE REVISED STABILIZATION AND STRUCTURAL ADJUSTMENT PROGRAM. I CONSIDER IT OF GREAT IMPORTANCE TO BE ABLE TO PRESENT DIRECTLY TO YOU THE SUBSTANCE OF THE PROGRAM AS WELL AS THE MEDIUM-TERM PERSPECTIVE, TO DESCRIBE THE REQUIREMENTS FOR EXTERNAL FINANCE IN ORDER FOR THIS PROGRAM TO BE IMPLEMENTED SUCCESSFULLY, AND TO SEEK YOUR COOPERATION IN ASSURING THAT THESE RESOURCES ARE MADE AVAILABLE.

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B

C TELEX NO.: CABLE ADDRESS:

D DRAFTED BY NAME (TYPE): J. DE LAROSIERE EXT.: 73057 DEPT.: OMD DATE: 9/20/83

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ACCORDINGLY, I SHOULD LIKE TO INVITE YOU TO JOIN ME IN A MEETING NEXT MONDAY, SEPTEMBER 26, 1983 AT 3:00 P.M. IN THE EXECUTIVE BOARD ROOM AT THE HEADQUARTERS OF THE INTERNATIONAL MONETARY FUND IN WASHINGTON. I AM INVITING THE CHAIRMEN/CHIEF EXECUTIVE OFFICERS OF THE OTHER ADVISORY GROUP BANKS TO ATTEND AS WELL AS THE FUND STAFF WHO HAVE BEEN NEGOTIATING THE PROGRAM. IN ADDITION, CHAIRMAN VOLCKER AND BIS PRESIDENT LEUTWILER ARE BEING INVITED TO PARTICIPATE. IN ORDER TO FACILITATE DISCUSSIONS I BELIEVE IT WILL BE DESIRABLE TO

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LIMIT THE SIZE OF THE GATHERING AND ACCORDINGLY I AM INVITING PARTICIPANTS TO BRING NOT MORE THAN ONE COLLEAGUE TO THE MEETING.

I SHOULD BE VERY GRATEFUL IF YOU WOULD CONFIRM TO ME BY TELEX YOUR PARTICIPATION IN THE MEETING NEXT MONDAY.

CORDIALLY YOURS

J. DE LAROSIERE

MANAGING DIRECTOR

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 14, 1983

Dear Paul,

Following my telex of last week in which I transmitted to you my summing up of the Executive Board discussion of September 2, 1983, on the Fund's liquidity position and financing needs, I thought you might also be interested to see the statement which I made this morning to the Executive Board in the wake of the discussions of the central bank governors of the Group of Ten at the monthly BIS meeting on Monday, 12 September 1983. I enclose a copy of my statement which I am also circulating with a similar letter to the other central bank governors of the Group of Ten, and to Dr. Leutwiler.

I look forward to seeing you in Washington next week and to pursuing this matter further with you on that occasion.

With warm regards,

Yours sincerely,

J. de Larosiere

Mr. Paul A. Volcker
Chairman of Governors
Federal Reserve System
20th and Constitution Ave., N.W.
Washington, D.C. 20551

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

September 14, 1983 - 83/240

Statement by the Managing Director
on the Financing of Commitments Under
the Present Policy of Enlarged Access
Executive Board Meeting 83/139
September 14, 1983

I would like to inform the Executive Board of my understanding of the outcome of the meeting of the central bank governors of the Group of Ten at the monthly meeting of the BIS on Monday, September 12, 1983. In telephone conversations over the last two days with Mr. Poehl, President of the Bundesbank and currently Chairman of the G-10 Central Bank Governors Committee in the BIS, and Mr. Leutwiler, President of the BIS, I was informed that the Governors came to the widespread and even unanimous view not to go ahead with the project for a further loan agreement, at least for the time being. I do not believe it would be fruitful to go into details at this time.

The outcome of the recent meeting in Basle raises some questions regarding the financial viability of the present policy on enlarged access and what options we should consider regarding the working of that policy. As Executive Directors are aware, the Fund has been concluding new stand-by and extended arrangements under the EAR policy involving the commitment to provide borrowed resources without, since March of this year, having available lines of credit to back up those commitments. The so-called commitment gap is now SDR 3.5 billion as you know; and the staff has estimated it would rise to SDR 6 billion by the end of this year or early 1984, on indications of likely use of the Fund's resources under the policy on enlarged access.

You will remember that I stressed in my statement of September 7, 1983 (Buff 83/234), which I had conveyed to Governors of the G-10 Group (and it might be useful if it were in the hands of Ministers for the forthcoming meetings in Washington), that this commitment gap needed to be closed urgently and failure to do so would weaken the Fund's liquidity position and its image in a very uncertain and difficult international financial environment. I also stated at that time that if matters regarding new credit to the Fund would prove to be more difficult, or take longer than expected, I would appraise the Board of all the options available, including a cutting back of any new commitments. Given the result of the meeting on Monday, I believe it is now necessary to consider some of those options.

First, we could, theoretically, continue our present policy and enter into new stand-by and extended arrangements without the assurance of financing becoming available in the next months. The commitment gap would continue to rise and disbursements under the new, as well as outstanding, arrangements would be made from present undisbursed proceeds of existing loan agreements. As of the beginning of September, the undisbursed proceeds of existing loans amounted to SDR 6.2 billion (of which SDR 0.7 billion is under the SFF and the remainder under

EAR lines of credit). As the staff has indicated in the most recent review of the Fund's liquidity position (EBS/83/170, 8/12/83), balances under the existing lines of credit are expected to be fully disbursed by June 1984, i.e., by June 1984 we would not have any cash resources available under existing lines of credit, taking account of the phasing of outstanding arrangements and new arrangements expected to be entered into in the next few months. In short, on this count we will have exhausted all existing lines of credit by around mid-1984.

If such a course of action were envisaged, the Fund's uncovered commitments to supply borrowed funds would have to be met in the last resort from the Fund's ordinary resources. I would say that this is so by definition if we cannot arrange alternative lines of credit to meet disbursements under arrangements. The squeeze on our usable ordinary resources is, however, as I mentioned earlier this month, becoming progressively tighter. The Fund's holdings of uncommitted usable currencies and SDRs amounted to SDR 10 billion at the beginning of September and are projected to fall to around SDR 6.7 billion by the end of 1983 or early 1984, if we continued our present policy. This amount would barely exceed the projected commitment gap of SDR 6 billion as of the end of 1983 or early 1984, and this would leave virtually no margin of uncommitted resources to finance other drawings on the Fund, including those under special facilities, first credit tranches and in the reserve tranche. The Fund would be compelled, under such a course of action, to cease all operations at the beginning of 1984. This is obviously impossible.

If the Fund's liquidity position was looked at on a true cash or disbursement basis, the following would result: the total of usable currencies and SDRs (adjusted for working balances) plus available lines of credit at the beginning of September was SDR 21 billion and the total is projected to fall to SDR 14.1 billion by December and to approximately SDR 7.5 billion by June 1984, the date by which time it is expected that the existing lines of credit, as I said, would be exhausted. In contrast, the Fund's commitment to disburse resources under existing and new arrangements, while being spread over a period of time reflecting the length of the arrangements, are projected to amount to SDR 13.4 billion as of the end of 1983 and to SDR 10 billion by June 1984. In addition, provision will need to be made to accommodate drawings under the special facilities and in the reserve tranche (reserve positions in the Fund, including loan claims, are expected to total approximately SDR 45 billion by June 1984). Starting in the spring of 1984 (when the total of undrawn commitments will equal or begin to exceed the Fund's total usable assets) it will become over time practically impossible for the Fund to meet both the disbursements under undrawn commitments and to engage in other operations and transactions with members on the scale that might be required in the period ahead, i.e., the Fund could be put in a position where it would be unable to honor past commitments. The effective depletion of the Fund's liquid resources while continuing our present enlarged access policy would thus lead us into an impossible position.

I do not believe that a rapidly deteriorating liquidity position is tenable for an institution such as the Fund. Consequently, we must now consider, inter alia, whether we can prudently let the commitment gap rise over the next few months in the absence of reasonably firm indications on the means of financing it.

In this regard, one solution could be for the Fund to cease entering into any new arrangements involving the enlarged access policy--i.e., to effectively suspend the policy on enlarged access so that the Fund would not, for the time being, enter into further commitments involving EAR borrowed resources. We could also consider various alternative modalities to ration access to the Fund's resources, including ordinary resources, on an availability basis with perhaps subsequent augmentation when resources become available. I have asked the staff to examine urgently various alternative approaches that could effect a slowing down of the drain on the Fund's resources.

It would be possible to consider immediately, i.e., as of today, a change in the Fund's policy on the use of its resources, but it might be considered as too sudden and precipitous an action to effect a change in policy now, and I shall not recommend it. However, I believe the Executive Board must examine, in the period immediately after the Annual Meetings, probably October 3, 1983, a course of action that would effect some slowdown in the use of the Fund's resources, or at least to introduce some contingency provision making the use of resources conditional on the availability of financing to this institution.

I do not believe that in present circumstances it would be appropriate for the staff to continue or engage in discussions with members requesting the use of the Fund's resources which would involve further commitment by the Fund of EAR borrowed resources, and I plan to give appropriate instruction to staff missions on this matter. This would mean that the Fund should not enter into new arrangements which would involve the commitment of EAR borrowed resources beyond those requests that are for consideration by the Executive Board prior to the review that I indicated should take place immediately after the Annual Meetings.

June 3, 1983

Dear Jacques:

I think the letter is fine, but I have taken the liberty of suggesting a few editorial changes to, hopefully, make it sound a little more like a cooperative venture.

Good Luck.

Sincerely,

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
19th and H Streets, N. W.
Washington, D. C. 20431

PAV:slw

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Dear Paul,

could you be kind enough to glance at the attached draft to Mr. Galveas. I would appreciate your reaction this evening or tomorrow morning if possible.

Sincerely
Jacques

With the Compliments of

Jacques de Larosière June 2. 83

Managing Director

P.S. I sent a copy to M. McNamar.

Draft

Dear Mr. Galveas:

I am writing to you to underscore the importance in our common interest I attach to the discussions you and your colleagues will be having with the Fund mission in the next few weeks. These will be crucial meetings, with their results determining whether the Brazilian program can be put back on track and confidence in a speedy improvement in Brazil's economic situation can be restored; success in this area is indispensable for a return to growth and prosperity.

I thought we had made a promising start in the period December 1982-February 1983, after weathering some very difficult situations. You were able to frame a comprehensive policy package. We all made efforts to arrange the financing that was needed, and at first it seemed that we had succeeded. The maxi-devaluation was performed without loss of time in our joint schedule. Only shortly after these apparent successes, however, we found that the program was in serious trouble on both the domestic and external financing fronts. This is ~~a~~ most disappointing ~~performance~~ to all of us, and I still do not understand the factors underlying this development.

Quick and decisive action is now essential ~~if~~ to avert a further weakening of the domestic economic situation and another reduction in the availability of foreign resources ~~is to be averted~~. I think we all agree that the adjustment effort will need to be strengthened substantially, on the basis of a realistic appraisal of the problems faced. We cannot afford to be complacent about the time that is available to take the measures needed to restore confidence and, on that score, to obtain the external finance necessary for orderly implementation of the required adjustment. After putting in place the appropriate domestic measures, it will be essential that the program be implemented with determination and on the basis of monitoring arrangements that reveal problems before they come to be of such magnitude that they are overwhelming. It will also be necessary to assure that the external financing package is more solidly constructed than the one that was organized in late 1982 and early 1983, and we here are prepared But that will only be possible if the banking community is confident that a meaningful program is being implemented.

I can assure you that the management and staff of the Fund are prepared to assist you in re-examining the existing program and in developing the ~~remedial~~ measures needed, ~~as well as~~ to make another effort to marshall the external resources necessary to support the several of the Brazilian program. ~~However, I urge you to be~~ Boldness ~~when~~ in deciding on ~~remedial~~ measures and presenting the need seems crucial, and I have instructed the mission to ~~take particular care in~~ be sensitive to the need to ensuring that the modified program is credible and has every chance of succeeding. I ~~am especially concerned about~~ know the continued high rate of inflation is of concern to you as well as us. The measures adopted have to be capable of assuring a pronounced and sustainable deceleration of inflation if a heavy long-term toll on economic efficiency and growth is to be avoided. It is becoming increasingly evident that success in this area cannot be achieved as long as the economy continues to be heavily indexed.

You will appreciate, of course, that in the light of experience, we have to be ~~certain~~ confident about the chances of the program succeeding this time around before presenting it to the Executive Board of the Fund. Another disappointing performance would be unfortunate for Brazil and would seriously endanger the credibility and usefulness of the Fund.

I trust that the mission visiting Brazil will be able to reach agreement on policies that would satisfy the needed conditions ~~I have outlined~~, and I would urge you to ensure that mechanisms adequate to the task of implementing the program be put in place. I wish you success in these endeavors.

With my warmest regards,

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 19, 1983

To Chairman Volcker

Subject: IMF legislation.

From Messrs. Bradfield, Truman, Ryan and Winn JB

In preparation for Conference Committee consideration of the IMF legislation, we have prepared a summary of the House (H.R. 2957) and the Senate (S. 695) bills (at TAB A) and tables comparing the two bills (at TAB G). The following are our conclusions as to Federal Reserve priorities for the Conference legislation.*/

There is only one provision, contained in the House bill, that would prevent payment to the IMF of the U.S. quota increase: the requirement that IMF salaries and interest on loans to Fund employees be reduced to U.S. government salary levels before the U.S. can consent to its quota increase (p. 29).**/ If this amendment cannot be deleted, Treasury staff is thinking along the lines of a substitute provision requiring the U.S. Executive Director to work for Fund salaries to be in line with those in the U.S. public and private sector and for elimination of below-market interest rates on Fund loans to its employees.

There also are several provisions -- all in the House bill -- that are troublesome in terms of IMF operations:

1. The Schumer amendment requires that IMF adjustment programs include provisions to convert short-term bank debt at high interest rates into "long-term debt at lower interest rates" (pp. 15-16). The substitute language that you negotiated with Schumer is at Tab B.

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*/ On a large number of other provisions, we would propose that Treasury take the lead in seeking modifications.

**/ Page numbers are references to tables at TAB G.

2. If it is not deleted in Conference, the Neal amendment on SDR allocations needs to be amended to provide for greater flexibility (p. 7). Treasury appears to be willing to compromise on a provision requiring prior Congressional consultation on future SDR allocations and prior Congressional approval for allocations in any basic period that would result in an increase in allocations to the United States in excess of 75 percent of the U.S. quota. (Treasury may be willing to compromise at a 50 percent level.) Draft language along these lines is at TAB C.

3. The provision requiring active U.S. opposition to IMF loans to countries practicing apartheid or to communist dictatorships (p. 3) could result in a significant politicization of the Fund. However, given the current political dimensions of this provision, the Administration currently is undecided whether either an amendment or deletion of the provision is feasible.

There are several banking supervision and international lending provisions that also could have significant policy implications and which consequently need modifying in Conference:

4. The House bill specifies that the banking agencies must require reserves against loans likely to be restructured (p. 34). This provision should be deleted in view of Chairman St Germain's commitment and the banking agencies' recent adoption of capital adequacy guidelines for multinational bank holding companies.

5. Both the House and Senate bills require banks to make detailed evaluations on overseas mining (Senate) as well as manufacturing (House) loans (p. 40). One concern with the provision is that U.S mining or manufacturing interests, through court actions based on this legislation, could tie up any U.S. bank lending in this area. Moreover, the provision is objectionable as a move toward credit allocation. However, given the tenor of the House

floor debate and the presence of this provision in both the House and Senate bills, it is unlikely to be dropped in Conference. TAB D has a suggested compromise with a limitation on its applicability only to mining activities, a relatively high dollar threshold for the provision to apply and a modified list of factors to be included in the required studies. It also would deny a legal right of action to any person for failure of a bank to comply with the loan evaluation requirements. In addition, no civil or other penalty would be applied by any government agency for failure to comply with the requirements.

6. The House bill requires payment to Treasury of "excessive interest" on private bank loans made more secure or affected by the IMF quota increase (p. 26). Treasury staff is thinking of a compromise on a substitute provision in which the U.S. Executive Director would seek adoption of IMF policies that banks' interest receipts be limited during Fund programs. We would suggest a less sweeping modification in the provision (attached at TAB E), that would require the Treasury to inform the IMF of proposed interest payments so that the Fund could ascertain whether payment of such interest is inconsistent with the provisions of any applicable Fund program. The statutory provisions would still require detailed reporting by banks to the Secretary of the Treasury on the terms of all foreign loans and so would not be unobjectionable to those banks.

7. The House bill contains the Dorgan amendment prohibiting fees on restructured foreign loans in excess of administrative costs and requiring that such administrative fees be amortized over the life of the credit. This amendment goes significantly beyond that in the regulators' proposal in that it requires <u>all</u> fees to be amortized and also will have the effect that any fees other than administrative costs will have to be covered by the interest spread on the loan. It would be reasonable to amend the provision to allow agency fees to be charged, since, unlike other types of fees that could be included instead in a higher interest spread on the loan, these fees are paid only to the agent bank or banks. Attached at TAB F is suggested language.

8. The House bill has more detailed capital adequacy provisions than the Senate bill. The House version was worked out by Congressman Leach and the IBAA, with OCC assistance (p. 39). We prefer the simpler Senate version as giving the banking agencies the broad discretion to set and enforce capital levels that Congress initially had intended. We suggest working for that outcome in Conference.

9. We should obtain Conference report language clarifying the scope of GAO audit authority under the House bill provisions regarding international coordination of regulation, supervision and examination activities (p. 42) and language assuring adequate protection of confidential information. GAO staff has indicated that they would not object to this approach. If a further clarification of the law is needed, it could be done after enactment by a Federal Reserve-GAO exchange of letters.

10. In view of our respective expertise and responsibilities, we suggest amending the requirement that the Secretary of Treasury submit a report on the G-10 countries' supervisory practices (p. 44), to require the report be made by the Chairman of the Federal Reserve Board and the Comptroller of the Currency.

11. Finally, we suggest deletion of the provision requiring that the FDIC be given representation equal to the OCC and Federal Reserve Board on the Cooke Committee (p. 45), as an unnecessary and inappopriate statutory provision. We would suggest that you send a letter to the Conferees to that effect, indicating that steps already are being taken to obtain FDIC representation and indicating that you will work for satisfactory arrangements to be achieved.

Based on your judgment as to these proposed positions on the legislation, we will work with Treasury to coordinate our efforts on the Hill.

TAB A

A

S.695

The Senate bill has only a few provisions additional to or different from those in the proposed Treasury IMF legislation and banking agencies' international lending supervision bill. They are, briefly, as follows.*/

A. Trade-Related Amendments

1. Surplus Commodities: Requires NAC report to President and Congress every 90 days listing all applications to IMF and IBRD for financing that would enhance production of commodities for export such that the commodity would be in surplus and U.S. producers would be substantially injured; establishes general policy for U.S. representatives to IMF and IBRD to take into account effect of adjustment programs on industrial sectors and international commodity markets (p.21).

2. Import Restrictions: U.S. Executive Director to make proposals for members drawing from IMF to take steps to eliminate all import restrictions that are inconsistent with the GATT and that have a serious adverse impact on U.S. exports and employment; U.S. Executive Director is to consult with Congress before any vote inconsistent with this directive; appropriate federal agencies are to inform U.S. Executive Director of relevant countries and trade practices; Secretary of Treasury to submit annual report on implementation (p. 11).

3. IMF consultations on technical assistance to reduce improper trade practices: U.S. Executive Director to initiate consultations in IMF to develop financial and technical assistance policies to reduce restrictions on international trade and investment (p. 11).

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*/ Page numbers refer to pages of tables at Tab G.

4. Trade policies regarding agricultural products accompanying Fund programs:

U.S. Executive Director to propose that following policies be adopted by Fund as to use of Fund resources (except reserve tranche drawings): drawing member to provide list of all direct and indirect subsidies on agricultural exports; if Fund determines any are predatory and U.S. determines they have adverse impact on U.S. exports, member must agree to elimination of the subsidies within 3 years; "export subsidy" is broadly defined (p. 12).

5. Unfair trade practices of countries receiving financing or technical assistance from IMF: U.S. Executive Director to work to obtain agreement of any country drawing on IMF or receiving technical assistance to eliminate unfair trade and investment practices, in a manner consistent with any adjustment program, and which the appropriate federal agencies have determined to have a significant deleterious effect on the international trading system. In determining U.S position on Fund drawings, Secretary of the Treasury to take into account progress of country in eliminating foregoing practices and must report to Congress if U.S. supports financing to country not meeting any IMF targets in this respect (p. 22).

6. IMF - GATT coordination: IMF and GATT representatives should meet regularly and improve coordination (p. 38).

B. IMF Operations

7. Future Changes in GAB: Prior Congressional authorization for U.S to agree to any significant alteration of GAB (p. 6).

8. Data collection on debt in IMF: U.S. to propose and vote for procedures in IMF to collect and disseminate (as appropriate) data quarterly on cross-border lending; Secretary of the Treasury to report within 6 months on implementation of provision (p. 8).

9. GAB use for non-GAB participants: U.S. can support use of GAB for non-GAB participants only if Secretary of the Treasury certifies to Congress that such use is necessary to deal with international economic conditions which could threaten the international monetary system (p. 20).

10. Report to Congress on IMF gold: Within 180 days, Secretary of the Treasury to report on feasibility of IMF gold sales to members or to market, loans of gold to members, and report on effects on gold and credit markets and members' gold reserves of foregoing options (p. 13).

11. IMF and oil prices: Secretary of Treasury to report to Congress in 60 days on impact of IMF lending on world oil prices (p. 13).

12. Future role of IMF: Secretary of Treasury to report within 6 months following assessments: need for systematic debt restructurings; role of global recovery in easing debt crisis; whether IMF resources are adequate; role of IMF in providing financing to least developed countries; progress on international coordination for improving international monetary system (p. 13).

C. Miscellaneous

13. Private bank lending for overseas mining: Requires private banks to prepare an economic feasibility evaluation before making any loan to finance all or part of a project developing a mining operation outside the U.S. in excess of $25 million. The assessment must include the project's profit potential; its impact on world markets and U.S. industry and employment; its competitive effects; its effect on development in the country; and whether the project can reasonably be expected to be repaid over the life of the project without a government subsidy (p. 40).

14. BIS membership: Federal Reserve, Treasury, and State Departments to report to Congress within 90 days on their consideration of BIS membership (p. 10).

H.R. 2957

The House bill contains provisions similar or identical to amendments 1, 2, 3, 5, 7, 8, 10 and 13 above. In addition to these provisions, the House bill, briefly, adds the following provisions to the legislation:

A. Economic policies

1. General findings: General policy findings regarding need for economic recovery; requirement that President encourage industrialized nations to: pursue coordinated noninflationary pro-growth policies, develop appropriate plans for debt rescheduling in countries where needed, promote improved supervision of international banking, report to Congress on foregoing (pp 1-2).

B. IMF Operations -- Policies and Programs

2. Policies in IMF: U.S. Executive Director to work for adoption of Fund policies that promote: noninflationary economic growth; low tax rates; reduced government sector; improved environment for foreign private investment; socially equitable economic adjustment programs; prices reflecting market forces; Fund programs that maintain and increase standard of living for lower-income families (pp. 2-3).

3. Schumer amendment: U.S. Executive Director is to work for IMF policies that: convert short-term bank debt at high interest rates to long-term debt at lower interest rates; assure that external debt service is a manageable percentage of projected export earnings; economic adjustment programs take into account aggregate effect of the programs on world economy. U.S. Executive Director is to vote against any program in which annual external debt service exceeds 85% of annual export earnings of the country unless a number of factors are present (debt restructurings at lower interest rates, annual debt service is manageable, no adverse impact on world economy) or extraordinary circumstances are present. NAC to report annually on implementation of provisions (pp 15-16).

4. SDRs: Future SDR allocations require prior Congressional authorization (p.7).

5. Apartheid and Communist dictatorship: U.S. Executive Director to actively oppose IMF drawings by countries practicing apartheid or communist dictatorships (p.3).

6. Human needs report: Secretary of Treasury to report within 180 days on steps taken to carry out present "human needs" provisions in Bretton Woods Agreements Act (p. 14).

7. Bank bail out: U.S. Executive Director to vote against any IMF drawing that would principally be for the purpose of repaying private bank credits; work to insure Fund encourages rescheduling where appropriate (p. 19).

8. Nuclear non-proliferation: U.S. Executive Director shall consider, if appropriate, a drawing member's policies on nuclear non-proliferation (p. 23).

9. IMF salaries: U.S. may not consent to quota increase unless IMF employees are paid no more than Executive Level IV and IMF credit to Fund employees is at rates no lower than rates on housing loans under title II of the National Housing Act (p. 29).

10. Notice of IMF dollar borrowing: Requirement of 60 days' prior notice to Congress for IMF to borrow U.S. dollars from non-official sources (p. 28).

11. IMF charges and renumeration: U.S. Executive Director to work for IMF policies by which IMF remuneration and charges are in line with market rates. Secretary of Treasury to report to Congress on progress within 180 days (p. 36).

C. IMF Quotas and GAB

12. Consultations prior to quota negotiations. Certification for GAB activation: Prior Congressional consultations required for future negotiations on U.S. quota increase; GAB resources can only be activated if Secretary of Treasury certifies supplementary resources are needed to forestall or cope with an impairment of international monetary system and Fund has fully explored other means of funding (p. 6).

13. <u>Countries drawing from IMF</u>: Secretary of Treasury to report to Congress on countries that will receive loans as a result of quota increase (p. 7).

14. <u>Payment of quotas in "hard currencies"</u>: U.S Executive Director to work on amendment to IMF Articles to provide for payment of quotas in dollars, DM, francs, yen, or sterling (p. 30).

D. <u>Exchange Rate Stability</u>

15. <u>IMF to improve exchange rate stability</u>: U.S. Executive Director shall propose that: IMF programs support policies that reduce need for abrupt or damaging exchange rate changes; in Art. IV consultations, IMF recommend and encourage adoption of policy changes where needed to better promote greater economic, price and exchange rate stability. Secretary of the Treasury to report semiannually on implementation (p. 4).

16. <u>Report to Congress on exchange rate problems, IMF role</u>: Within 90 days, the President is to report to Congress on role of IMF and U.S in maintaining realistic market-related exchange rates among major currencies and recommendations for avoiding exchange rate manipulation. Should particularly examine policies of countries with substantial trade surplus with U.S. that encourage capital export. Secretary of Treasury shall propose in IMF: a comprehensive study of exchange rate problems and steps to correct structural imbalances; strengthening Art. IV consultations (pp. 4-5).

17. <u>Report on reform of floating rate system</u>: Secretaries of Treasury and State and the STR to discuss with other countries economic dislocations resulting from structural exchange rate imbalances. Secretary of Treasury to report within 180 days on proposals to reform the floating exchange rate system (p.5).

E. <u>Trade-related amendments</u>

18. <u>Steel subsidies</u>: In addition to those cited above contained in the Senate bill, the House bill requires NAC study on impact on U.S. steel industry of steel subsidies by nations that borrow from IMF.

F. Banking

19. Reserving against restructured loans: Requirement that federal banking agencies prescribe reserves against foreign loans where there is a substantial likelihood that the debt cannot reasonably be expected to be repaid in accordance with its original terms and conditions without additional borrowing or a major restructuring (p. 34).

20. Amortization of fees: Prohibition on fees on restructured international loans exceeding administrative costs unless such fees are amortized (p. 35).

21. Prohibition on fees in restructurings; amortization of administrative fees: Prohibition on fees on restructured international loans in excess of administrative costs and requirement that these administrative fees be amortized (p. 36).

22. "Excessive interest" on foreign loans: Secretary of the Treasury to determine all foreign loans by U.S. banks on which interest charged exceeds the rate that would be charged a corporate borrower with an AAA rating on a loan of similar maturity. Such "excessive" interest is to be paid to Treasury for loans that the Secretary determines have been extended, refinanced, or made more secure, or in any manner affected by the increased U.S. quota in the IMF (p. 26).

23. Excessive foreign lending: Federal banking agencies are to implement following provisions until January 1, 1986: no banking institution having foreign loans in any country exceeding the bank's primary capital on or after June 30, 1983 can make any new loans to borrowers in such countries if the result would be for the growth rate of aggregate foreign loans of the bank to exceed one-half the growth rate of aggregate foreign loans during January 1, 1980 through January 30, 1982. However, this limit does not apply if the annual growth rate of the bank's domestic loans exceeds the foregoing limit. Secretary of Treasury and Chairman of Federal Reserve need not enforce this section if they determine the domestic economy would be adversely affected or President determines enforcement would be detrimental to the national interest (pp. 17-18).

24. Capital adequacy: In addition to enforcement of prescribed capital adequacy levels through cease and desist orders under authority to prescribe safe and sound banking practices, federal banking agencies may require compliance with prescribed capital levels by order specifically issued for this purpose under authority of this law (p. 39). House bill also contains provision allowing minimum capital level to be set by appropriate federal banking agency, as it deems "necessary or appropriate in light of the particular circumstances of the institution."

25. GAO audit authority: GAO audit authority confirmed as to international banking supervision activities of federal banking agencies (p. 42).

26. Report on G-10 supervisory practices: Secretary of Treasury to report to Congress within 120 days on banking supervisory practices of G-10 countries (p. 44).

27. FDIC on Cooke Committee: FDIC to be given equal representation with Federal Reserve Board and OCC on Cooke Committee (p. 45).

TAB B

Schumer Amendment

B

Sec. 48(b)(2)(A)(i) should read:

. . . Unless the Secretary of the Treasury first determines and provides written documentation to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance, and Urban Affairs of the House of Representatives that --

(i) the economic adjustment program works toward converting short-term bank debt which was made at high interest rates into longer term debt at moderate interest rate spreads.

TAB C

SDR Allocations

Section 6 of the Special Drawing Rights Act (22 U.S.C. 286q) is amended to read as follows:

"Sec. 6. Neither the President nor any person or agency shall on behalf of the United States vote to allocate Special Drawing Rights under article XVIII, sections 2 and 3, of the Articles of Agreement of the Fund: (a) without consultations, at least 90 days prior to any such vote, with the Chairmen and ranking minority members of the Committees on Foreign Relations and Banking, Housing and Urban Affairs of the U.S. Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives, and any appropriate subcommittees thereof and (b) without prior Congressional authorization where such allocation to the United States in any basic period would exceed an amount equal to seventy-five percent of the United States quota in the Fund."

C

TAB D
Loan Evaluations

Sec. x. (a) No banking institution shall extend credit, whether by loan, lease, guarantee, or otherwise, which individually or in the aggregate exceeds $10,000,000, to finance all or any portion of any project, which project:

(1) has as its principal objective the construction, establishment, or major expansion of any mining operation, or any metal or mineral processing or fabricating facility or operation, located outside the United States or its territories or possessions, and

(2) can reasonably be expected to require aggregate development expenditures (including all costs of construction and establishment) in excess of $25,000,000, unless a written economic feasibility evaluation of such foreign project is prepared by or for such banking institution and approved in writing by a senior official of such banking institution; or if such loan is made as part of a bank consortium loan, prepared by or for a banking institution managing such consortium and approved in writing by a senior official of such managing banking institution.

(b) Such economic feasibility evaluation shall take into account the profit potential of the foreign project, the

D

impact of the project on world markets, the competitive advantages and disadvantages of the project, the likely effect of the project on the overall long-term economic development of the country in which the project is located, and whether the extension of credit can reasonably be repaid over the life of the project without the government of the country in which the project is located engaging in any unfair or discriminatory trade practices with respect to export of the product involved in the mining, processing or fabricating facility or operation. Such evaluation shall be available to the appropriate Federal banking agency.

(c) No action in law or in equity may be brought by any person claiming to be affected in any manner by any extension of credit described in paragraph (a) of this section, or any decision not to extend such credit, notwithstanding failure by any person to comply in any way with the requirements of this section for an economic feasibility evaluation of such credit, nor shall any such failure result in any penalty being imposed or any civil or other legal action being brought by any federal banking agency or other agency or authority of the United States government.

TAB E

Interest on Loans

Amend proposed section 54(e)(2) of the Bretton Woods Agreements Act to read as follows:

With respect to loans identified in subsection (e)(1), the proposed interest payments on such loans shall be reported to the Fund by the U.S. Executive Director to ascertain whether such sums are inconsistent with any external financing limitations or other provisions contained in any Fund program of the debtor country concerned.

E

TAB F

Restructuring Fees

Amend section 319(a) of House bill to read:

Sec. 319. (a)(1) Notwithstanding any other provision of law (including any other provision of this title), in order to avoid excessive debt service burdens on debtor countries, no banking institution shall charge, in connection with the restructuring of an international loan, any fee exceeding the administrative costs associated with the restructuring.

(2) Notwithstanding any other provision of law (including any other provision of this title), any fee which is authorized to be charged under paragraph (1), including any agency fee, shall be amortized over the effective life of the loan involved.

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Subject: . Findings re international economic recovery

House version	Senate version	Substantive Difference	Recommended Position
TITLE II—INTERNATIONAL ECONOMIC RECOVERY FINDINGS SEC. 201. The Congress hereby finds that— (1) efforts by one nation to improve its economic well-being without regard to that of other nations are ultimately self-defeating; 1L-- (2) the well-being of all United States citizens depends on world economic growth and prosperity; and (3) world economic recovery is being impeded— (A) by high interest rates, particularly in the United States; (B) by the enormous magnitude and short maturity of the foreign debt of some nations; and (C) by the risk and uncertainty associated with a competitive international banking system in which bank regulatory programs, which differ markedly from nation to nation— (i) were designed to meet national rather than international safety and soundness concerns; (ii) may have contributed significantly to the international debt problem; and (iii) are not adequate to address potential future threats to international bank safety and soundness; (4) millions of American jobs have been lost through the worldwide recession; and (5) a substantial portion of the decline in the United States gross national product in recent years was due to a sharp drop in exports; (6) renewed growth in the developing countries would help to restore United States export markets and millions of American jobs; (7) the financial resources within the developing countries could be turned to renewed growth; and (8) the international debt crisis would substantially ease if the time allowed for debt repayment were lengthened for those nations most severely burdened by foreign debt.			House version acceptable.

Subject: Economic policies to be supported by IMF

House version	Senate version	Substantive Difference	Recommended Position
ECONOMIC GROWTH; SUPERVISION OF INTERNATIONAL LENDING SEC. 202. (a) The President shall encourage the industrialized nations— (1) to take actions on a cooperative, multilateral basis to adopt fiscal and monetary policies which will result in sustainable, noninflationary economic growth and increased employment on a worldwide basis; (2) to develop plans for reducing the financial pressures on nations whose growth is being constrained by the size and short maturity of their foreign debt by extending, where appropriate, the maturity of such debt; and (3) to begin immediately to promote the effectiveness and the consistency of the regulation and supervision of international banking. (b) Not later than one year after the date of the enactment of this Act, the President shall transmit a report to the Congress— (1) regarding actions taken to carry out the provisions of subsection (a); and (2) which includes such recommendations as the President considers advisable for legislative actions needed to assure sustainable and noninflationary economic growth on a worldwide basis.			House version acceptabl
Subject: Economic growth - low taxation			
TITLE III—INTERNATIONAL MONETARY FUND **PROMOTING ECONOMIC GROWTH AND CONDITIONS FOR EXCHANGE RATE STABILITY** SEC. 301. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "**PROMOTING ECONOMIC GROWTH AND THE CONDITIONS FOR EXCHANGE RATE STABILITY** "SEC. 42. (a) In order to help assure that the resources provided under section 40 are used to support progrowth policies which will help establish the economic conditions necessary for greater financial and exchange rate stability, it is the sense of Congress that the Secretary of the Treasury shall instruct the United States Executive Director of the Fund to work for adoption of policies in the Fund, both within the framework of article IV consultations and with respect to the conditions associated with Fund-supported balance of payments adjustments programs, that— "(1) promote sustained noninflationary economic growth, monetary stability, and higher levels of productive employment; "(2) support the evolution of broadly based, nondiscriminatory, low-rate tax systems which will encourage private sector savings and provide incentives for productive [illegible] investment and private			House version acceptable

Subject: Economic policies p.2

House version	Senate version	Substantive Difference	Recommended Positi[on]
"(3) encourage the establishment of sound monetary and fiscal policies which limit Government preemption of real and financial resources and which are conducive to sustainable economic recovery and growth, full employment, and price and exchange rate stability; "(4) discourage Government regulation and Government allocation of real and financial resources; "(5) encourage international capital flows and investment by providing a predictable economic and legal climate based on sanctity of contracts with, and property rights of, foreign investors; "(6) ensure that policies adopted by Third World countries pursuant to their borrowing from the Fund are fair and equitable to all strata of their economy and society; and "(7) would allow prices to better reflect underlying market forces. "(b) In negotiating with Third World countries, the United States Executive Director of the Fund shall work through the Fund for policies which assist low- and moderate-income families to maintain and increase their level and standard of living, and which provide for and foster the creation of democratic institutions.			
Subject: opposition to apartheid and Communist dictatorship			
INSTRUCTIONS TO THE EXECUTIVE DIRECTOR REGARDING THE ECONOMIC IMPACT OF APARTHEID AND COMMUNIST DICTATORSHIPS SEC. 304. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SEC. 43. The Congress hereby finds that the practices of apartheid and Communist dictatorship result in severe constraints on labor and capital mobility and other highly inefficient labor and capital supply rigidities which contribute to balance of payments deficits in direct contradiction of the goals of the International Monetary Fund. Therefore, the President shall instruct the United States Executive Director of the Fund to actively oppose any credit drawings on the Fund or any of its facilities by any country which practices apartheid or Communist dictatorship.".			Administration should assess whether an amendment or deletion is feasible.

Subject: IMF promotion of exchange rate stability

House version	Senate version	Substantive Difference	Recommended Posi
§301 - cont. of §42 of the BWA Act "(c) The Secretary shall also instruct the United States Executive Director of the Fund to propose and work for the adoption of policies by the Fund that would strengthen efforts to promote conditions contributing to greater stability of exchange rates. Among other steps, the United States Executive Director of the Fund shall propose that— "(1) Fund-approved economic adjustment programs seek to promote greater exchange rate stability by supporting policies which would reduce the need for abrupt or damaging exchange rate changes; "(2) as part of the article IV consultation process, the Fund review the efforts of each Fund member to collaborate with the Fund to promote stable exchange rates. If as a result of such review, it is determined by the Fund that a member is not pursuing policies which promote a stable system of exchange rates, the Fund shall recommend and encourage the adoption of policy changes to better promote greater economic, price, and exchange rate stability. "(d) The Secretary of the Treasury, as the United States Governor of the Fund, shall report to the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate and to the Committee on Banking, Finance and Urban Affairs of the House of Representatives on a semiannual basis concerning the above directives to the United States Executive Director of the Fund.".			House version acceptable
SEC. 306. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SEC. 45. (a) Within ninety days of enactment of this section, the President shall report to the appropriate committees of Congress outlining the role of the International Monetary Fund and the United States Government with regard to maintaining realistic, market-related exchange rates with other major currencies and making recommendations as to what can be done to avoid exchange rate manipulation. In particular, such report shall examine the policies of major trading partners which (1) maintain a substantial trade surplus with the United States, and (2) encourage export of capital to such an extent that exchange rates do not appear to reflect adjustments based on trade patterns alone. Such report shall also include the status of the proposals set forth in subsection (b) of this section.			House version acceptable

Subject: exchange rates p.2

House version	Senate version	Substantive Difference	Recommended Position
"(b) The President shall instruct the Secretary of the Treasury to propose and work for the adoption of proposals by the Fund to promote conditions contributing to the stability of exchange rates and avoid the manipulation of exchange rates between major currencies. Among other initiatives, the Secretary or his designee shall propose: (1) a comprehensive study by the Fund of exchange rate problems with recommendations as to steps that can be taken to correct any structural imbalances identified and (2) strengthening the article IV consultation procedures of the Fund to attempt to ensure that countries which are artificially maintaining undervalued or overvalued rates of exchange agree to adopt realistic, market-related exchange rates. "(c) The Secretary of the Treasury shall take into account in determining his vote whether a country's policies are consistent with the requirements of article IV.".			
FLOATING EXCHANGE RATES SEC. 313. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "FLOATING EXCHANGE RATES "SEC. 51. (a) The Secretary of the Treasury shall, in consultation with the Secretary of State and the United States Trade Representative, initiate discussions with other countries regarding the economic dislocations which result from structural exchange rate imbalances. "(b) Not later than one hundred and eighty days after the date of the enactment of this section, the Secretary of the Treasury shall transmit a report to the committee on banking, housing, and Urban affairs and the Committee on Foreign Relations of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives regarding proposals to reform the floating exchange rate system. Such report shall contain such recommendations for legislative or administrative actions as the Secretary of the Treasury considers advisable.".			Amend to delete reference to "reform" of floating exchange rate system.

Subject: Quota increase and GAB authorization

House version	Senate version	Substantive Difference	Recommended Position
QUOTA INCREASE SEC. 302. That the Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended— (1) in section 17(a)— (A) by striking out "decision of January 5, 1962, and inserting in lieu thereof "decisions of January 5, 1962, and February 24, 1983, as amended in accordance with their terms,"; and (B) by striking out "not to exceed $2,000,000,000 outstanding at any one time," and inserting in lieu thereof "in an amount not to exceed the equivalent of 4,250,000,000 Special Drawing Rights, limited to such amounts as are appropriated in advance in appropriation Acts, except that prior to activation the Secretary of the Treasury shall certify that supplementary resources are needed to forestall or cope with an impairment of the international monetary system and that the Fund has fully explored other means of funding."; (2) in section 17(b), by striking out "$2,000,000,000," and inserting in lieu thereof "4,250,000,000 Special Drawing Rights, except that prior to activation the Secretary of the Treasury shall certify that supplementary resources are needed to forestall or cope with an impairment of the international monetary system and that the Fund has fully explored other means of funding."; (3) by adding at the end of section 17 the following: "(d) Unless the Congress by law so authorizes, neither the President, the Secretary of the Treasury, nor any other person acting on behalf of the United States, may instruct the United States Executive Director to the Fund to consent to any amendment to the Decision of February 24, 1983, of the Executive Directors of the Fund, if the adoption of such amendment would significantly alter the amount, terms, or conditions of participation by the United States in the General Arrangements to Borrow."; and (4) by adding at the end thereof the following: "SEC. 40. (a) The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 5,310.8 million Special Drawing Rights, limited to such amounts as are provided in advance in appropriation Acts. "(b) The Secretary of the Treasury shall consult with the chairman and the ranking minority member of— "(1) the Committee on Banking, Finance and Urban Affairs and the Committee on Appropriations of the House of Representatives, and any appropriate subcommittee of each such committee; and	§101 (b) Section 17 of the Bretton Woods Agreements Act (22 U.S.C. 286e-2) is amended— (1) by striking out in subsection (a) "decision of January 5, 1962" and inserting in lieu thereof "decisions of January 5, 1962, and February 24, 1983, as amended in accordance with their terms,"; (2) by striking out in subsection (a) "not to exceed $2,000,000,000 outstanding at any one time," and inserting in lieu thereof "in an amount not to exceed the equivalent of 4,250 million Special Drawing Rights, limited to such amounts as are appropriated in advance in appropriation Acts,"; (3) by striking out in subsection (b) "$2,000,000,000" and inserting in lieu thereof "an amount equivalent to 4,250 million Special Drawing Rights"; and (4) by adding at the end thereof the following: "(d) Unless the Congress by law so authorizes, the President, the Secretary of the Treasury, or any other person acting on behalf of the United States, may not instruct the United States Executive Director to the Fund to consent to any amendment to the Decision of February 24, 1983, of the Executive Directors of the Fund if the adoption of such amendment would significantly alter the amount, terms, or conditions of participation by the United States in the General Arrangements to Borrow.". (c) The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following new sections: "SEC. 40. The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 5,310.8 million Special Drawing Rights, limited to such amounts as are appropriated in advance in appropriation Acts.	1. House version requires certification by Secretary of Treasury before GAB is activated that the Fund has fully explored other means of funding. 2. House version specifies the Congressional consultations required before future quota increases are negotiated or agreed by Executive branch.	Senate should recede to the House.

Subject: quota increase p. 2

House version	Senate version	Substantive Difference	Recommended Position
"(2) the Committee on Foreign Relations, the Committee on Appropriations, and the Committee on Banking, Housing, and Urban Affairs of the Senate, and any appropriate subcommittee of each such committee, for purposes of discussing the position of the executive branch and the views of the Congress with respect to any international negotiations being held to consider any future quota increase for the International Monetary Fund which may involve an increased contribution, subscription, or loan by the United States. Such consultation shall be made (A) not later than thirty days before the intitiation of such international negotiations, (B) during the period in which such negotiations are being held, in a frequent and timely manner, and (C) before a session of such negotiations is held at which the United States representatives may agree to such quota increase.			

Subject: SDR allocations

House version	Senate version	Substantive Difference	Recommended Position
SPECIAL DRAWING RIGHTS SEC. 303. Section 6 of the Special Drawing Rights Act (22 U.S.C. 286q) is amended to read as follows: "SEC. 6. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States vote to approve any new allocation of Special Drawing Rights.".			Senate should recede to House with an amendment to make provisions less rigid.

Subject: Beneficiaries of quota increase

House version	Senate version	Substantive Difference	Recommended Position
BENEFICIARIES OF THE QUOTA INCREASE SEC. 324. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "BENEFICIARIES OF THE QUOTA INCREASE "SEC. 56. The Secretary of the Treasury shall transmit a report to the Congress specifying— "(1) the total amount of new funding which will be provided by the Fund as a result of the United States quota increase specified in section 40; and "(2) the countries which will receive loans as a result of such quota increase.".			House version acceptable.

Subject: Collection of information by IMF

House version	Senate version	Substantive Difference	Recommended Position
§302 "Sec. 41. (a) It is the sense of the Congress that— "(1) the lack of sufficient information currently available to allow lenders to make sound and prudent decisions concerning their international lending threatens the stability of the international monetary system; and "(2) in recognition of the Fund's duties, as provided particularly by Article VIII of the Articles of Agreement of the Fund, to act as a center for the collection and exchange of information on monetary and financial problems, the Fund should adopt such measures as are necessary and appropriate to ensure that more complete and timely financial information will be available. "(b) To this end, the Secretary of the Treasury shall instruct the United States Executive Director to the Fund— "(1) to initiate relevant discussions with other directors of the Fund and with the Fund management; and "(2) to propose, and vote for the adoption of, procedures, within the Fund— "(A) to collect and disseminate information, on a quarterly basis, from and to Fund members, and to such other persons as the Fund deems appropriate, concerning the extension of credit by banks or nonbanks to private and public entities, where such banks or nonbanks are not principally established within the borders of the member country to which the credits are extended; and "(B) to publicly disseminate information which is developed in the course of the Fund's collection efforts and which the Fund determines would serve to enhance the informational base upon which international borrowing and lending decisions are made. "(c) The President is authorized to use the authority provided under section 8 of this Act to require any person (as defined in such section) who is subject to the jurisdiction of the United States to provide such information as the Fund determines to be necessary in order to carry out the provisions of this section. "(d) Within one year after the date of the enactment of this section, the Secretary of the Treasury shall prepare and transmit to the Committee on Foreign Relations and the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives, a report regarding the progress made toward establishing collection, review, comment, and reporting procedures within the Fund; as provided by this section.	§101 "Sec. 41. (a) It is the sense of the Congress that— "(1) the lack of sufficient information currently available to allow members of the Fund to make sound and prudent decisions concerning their public and private sector international borrowing, and to allow lenders to make sound and prudent decisions concerning their international lending, threatens the stability of the international monetary system; and "(2) in recognition of the Fund's duties, as provided particularly by article VII of the Articles of Agreement of the Fund, to act as a center for the collection and exchange of information on monetary and financial problems, the Fund should adopt necessary and appropriate measures to ensure that more complete and timely financial information will be available. "(b) To this end, the Secretary of the Treasury shall instruct the United States Executive Director to the Fund to initiate discussions with other directors of the Fund and with Fund management, and to propose and vote for, the adoption of procedures, within the Fund— "(1) to collect and disseminate information on a quarterly basis, from and to Fund members, and to any other persons as the Fund deems appropriate, concerning— "(A) the extension of credit by banks or nonbanks to private and public entities, including all government entities, instrumentalities, and central banks of member countries; and "(B) the receipt of such credit by those private and public entities of member countries, where such banks or nonbanks are not principally established within the borders of the member country to which the credits are extended; "(2) to review and comment, on a timely basis, on such contemplated receipt of credit by any member as the Fund determines to be of significant monetary value given the current state and size of that member's economy; and "(3) to disseminate publicly information which is developed in the course of the Fund's collection, review, and comment efforts and which the Fund determines would serve to enhance the informational base upon which international borrowing and lending decisions are taken. "(c) As used in this section, the term 'credit' includes— "(1) outstanding loans to private and public entities, including government entities, instrumentalities, and central banks of any member, and "(2) unused lines of credit which have been made available to those private and public entities of any member, where such loans or lines of credit are repayable in freely convertible currency.	House version gives one year rather than 6 months for Secretary of the Treasury to report under paragraph (e). Senate version in paragraph (1) considers "information gap" as a problem affecting both borrowing countries and lenders. House version generally is better drafted.	Senate can recede to the House.

Subject: collection of information by IMF p. 2

House version	Senate version	Substantive Difference	Recommended Position
"(e) For purposes of this section, the term 'credit' includes— "(1) outstanding loans to private and public entities, including government entities, instrumentalities, and central banks of any member; and "(2) unused lines of credit which have been made available to such private and public entities of any member, where such loans or lines of credit are repayable in freely convertible currency.".	"(d) The President is authorized to use the authority provided under section 8 of this Act to require any person (as defined by that section) subject to the jurisdiction of the United States to provide such information as the Fund determines to be necessary in order to carry out the provisions of this section. "(e) Within six months after the date of enactment of this section, the Secretary of the Treasury shall prepare and transmit to the Committee on Foreign Relations and the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance, and Urban Affairs of the House of Representatives, a report on the progress made toward establishing collection, review, comment, and reporting procedures within the Fund, as provided by this section.		

Subject: BIS membership

House version	Senate version	Substantive Difference	Recommended Position
	§ 101 "Sec. 42. It is the sense of Congress that the Chairman of the Federal Reserve, the Secretary of the Treasury, and the Secretary of State should consider United States membership in the Bank for International Settlements and report to Congress within ninety days of the enactement of this legislation on their findings.".		Senate version acceptable

Subject: Trade provisions p. 2

House version	Senate version	Substantive Difference	Recommended Position
Subject: Import restrictions			
ELIMINATION OF IMPORT RESTRICTIONS SEC. 305. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SEC. 44. (a)(1) The Secretary of the Treasury shall instruct the United States Executive Director of the Fund to present proposals to the Executive Board of the Fund for the purpose of ensuring that each member country using Fund resources takes steps to eliminate expeditiously all import restrictions and unfair export subsidies which have been determined to be inconsistent with the General Agreement on Tariff and Trade, or other international agreements, and which have a serious adverse impact on United States, or any other member's, exports or employment. "(2) If the Fund does not adopt such proposals, the Secretary of the Treasury shall consult with the appropriate committees of the Congress prior to instructing the United States Executive Director to vote to provide Fund resources for a country whose policies are inconsistent with the above instructions. "(b) As part of this effort, the United States Trade Representative, the Secretary of Labor, and the Secretary of Commerce shall inform the Secretary of the Treasury and the Congress of all import restrictions and export subsidies by member countries which have been determined to be inconsistent with the General Agreement on Tariffs and Trade or other multilateral agreements and which have a serious adverse impact on exports from, or employment in, the United States.".	SEC. 102. The Bretton Woods Agreements Act is amended by adding at the end thereof the following: "SEC. 43. (a) The Secretary of the Treasury shall instruct the United States Executive Director to the Fund to present proposals to the Executive Board of the Fund for the purpose of ensuring that each member country using fund resources takes steps to eliminate expeditiously all import restrictions which are inconsistent with the General Agreement on Tariffs and Trade, or other international agreements, and which have a serious adverse impact on United States exports or employment. The United States Executive Director shall consult with the appropriate Committees of Congress prior to voting for any program which would be inconsistent with the above instructions. "(b) As part of this effort, the United States Trade Representative, the Secretary of Labor, and the Secretary of Commerce shall inform the United States Executive Director to the International Monetary Fund and the Congress of all import restrictions and export subsidies maintained by member countries of the Fund which have a serious adverse impact on exports from or employment in the United States. "(c) The Secretary of the Treasury shall transmit to the appropriate committees of Congress an annual report on the success in reducing or eliminating the restrictions referred to in subsection (a). "SEC. 44. The Secretary of the Treasury shall instruct the United States Executive Director to the Fund to initiate a wide consultation with the managing director of the fund and the other directors of the Fund with regard to the development of financial and technical assistance policies which, to the maximum feasible extent, reduce obstacles to and restrictions upon international trade and investment, eliminate unfair trade and investment practices and promote mutually advantageous economic relations.	1. House version imposes requirements as to Secretary of the Treasury rather than U.S. Executive Director of IMF. 2. Senate version requires annual report to Congress on success in reducing specified trade restrictions 3. Senate version imposes requirement of consultations in the IMF regarding financial and technical assistance policies.	House version preferable.

Subject: Elimination of agricultural export subsidies

House version	Senate version	Substantive Difference	Recommended Position
ELIMINATION OF AGRICULTURAL EXPORT SUBSIDIES SEC. 307. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SEC. 46. The Secretary of the Treasury shall instruct the United States Executive Director to the Fund to propose and work for the adoption of a policy requiring that prior to receiving any International Monetary Fund assistance Fund borrowers must eliminate all predatory agricultural export subsidies which might result in the reduction of other member countries' exports. The Secretary shall report to the relevant committees of Congress within one hundred and eighty days of enactment of this provision as to the progress achieved in reaching this goal.".	§102 "SEC. 45. (a) In order to contribute to global economic stability through a cooperative framework for the conduct of a free and market oriented system of world trade in agricultural commodities and products thereof, the Secretary of the Treasury shall instruct the United States Executive Director to the Fund to propose and to vote for the adoption by the Fund of the following policies with respect to any purchases, drawings, or other use of Fund resources (including loans under the General Arrangements to Borrow), by members, except for purchases or drawings within a member's reserve tranche: "(1) That prior to receiving Fund resources, a member must present to the fund information describing all direct or indirect export subsidies, including among other things the use of special tax incentives and subsidized financing for exports, employed by such member in connection with the exporting of agricultural commodities and products thereof to foreign countries. "(2) Prior to receiving Fund resources, if it is determined by the Fund that the export subsidies being employed by such member are predatory export subsidies and the U.S. Executive Director to the Fund has been advised by the Secretary of Agriculture, after consultation with the United States Trade Representative, that such subsidies have an adverse impact on United States exports of agricultural commodities and products thereof, such member must agree to a specific program of steps to eliminate expeditiously such predatory export subsidies over a period of time not to exceed three years. "(b) For purposes of subsection (a) of this section, the term 'predatory export subsidies' means the provision by any country or organization of countries, or instrumentality thereof, of any financial assistance through loans, payments, or comparable means (including the use of special tax incentives or subsidized financing for exports) to any person in connection with the export sale to a third country of agricultural commodities and products thereof produced in such country or organization of countries, that has the effect of lowering the export price, directly or indirectly, of such commodities and products thereof to less than the highest comparable price that a like commodity or product thereof produced and processed in the United States could be exported to the same third country in the ordinary course of trade. "(c) Not later than January 1, 1985, the President shall prepare and transmit a report to Congress setting forth his determination on whether the Fund has adopted and fully implemented the policies set forth in subsection (a) of this section.	1. House version requires U.S. to propose and work for adoption of policy requiring <u>elimination</u> by IMF member of all predatory agricultural export subsidies <u>before</u> receiving IMF funding; Senate version requires similar actions by U.S. but as to IMF member agreeing to <u>steps</u> to eliminate expeditiously such subsidies. 2. Senate provision defines "predatory (agricultural) export subsidies," and definition is broad. 3. Senate requires report to Congress on progress in implementing the provision by Jan. 1, 1985, whereas House gives a full 6 months.	Senate should recede to House.

Subject: Report to Congress by Secretary on IMF policies

House version	Senate version	Substantive Difference	Recommended Position
REPORT ON FUND POLICIES SEC. 308. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SEC. 47. (a) Not later than one hundred and eighty days after the date of the enactment of this section, the Secretary of the Treasury shall transmit to the Congress a report containing a thorough review and detailed analysis of the policies of the International Monetary Fund regarding— "(1) the ability of the Fund to promote real economic growth and sustained, noninflationary recovery, pursuant to its mandate in article I of the Articles of Agreement, in countries which enter into stabilization programs with the Fund; "(2) the feasibility of the Fund issuing securities in the private capital markets as a means of increasing its resources, either in lieu of, or in addition to, future quota increases, together with an evaluation of how such borrowing would affect the credit markets of the United States; "(3) the feasibility of returning all or part of the Fund's gold reserves to Fund members or of selling the Fund's gold reserves in the private markets, together with an evaluation of how such sales would affect the credit markets of the United States; "(4) the feasibility of establishing temporary, supplemental financing facilities at the Fund; and "(5) recommendations for amendments to the Fund's Articles of Agreement, if any, to improve the role of the Fund in the international monetary system. "(b) Such report on the policies of the Fund shall be referred to the Committee on Banking, Finance and Urban Affairs of the House of Representatives, and to the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate.".	SEC. 103. (a) Not later than one hundred and eighty days after the date of the enactment of this section, the Secretary of the Treasury shall transmit to the Congress a report containing a thorough review and detailed analysis of the policies of the International Monetary Fund (hereinafter referred to as the "Fund") relating to the Fund's gold reserves. Such report shall include an analysis of— (1) the feasibility of returning all or part of the Fund's gold reserves to Fund members; (2) the feasibility of selling the Fund's gold reserves in the private markets in an effort to raise capital; and (3) the feasibility of establishing a Gold Lending Facility whereby the Fund would lend gold to Fund members who would in turn use such gold as collateral for commercial loans. (b) In addition to the matters referred to in subsection (a), the report shall analyze— (1) the effect on the market price of gold as a result of taking any of the actions described in paragraph (1), (2), or (3) of subsection (a); (2) the effect on countries whose central banks maintain reserves in the form of gold as a result of taking any of the actions described in paragraph (1), (2), or (3) of subsection (a); and (3) the effect on the credit markets of the United States as a result of taking any of the actions described in paragraph (1), (2), or (3) of subsection (a). SEC. 105. The Secretary of the Treasury, in cooperation with the Secretaries of State and Energy, is required to undertake a study and report to Congress no later than sixty days after enactment of this legislation on the past and potential impact of International Monetary Fund loan quota extensions on world oil prices. SEC. 106. In order to permit the Congress to evaluate what further actions may be necessary concerning the International Monetary Fund, the Secretary of the Treasury shall transmit to the Congress not later than six months after the date of enactment of this Act a written report assessing— (1) whether under present circumstances a systematic restructuring and stretching out of developing country debt should be conducted; (2) the role global recovery will play in solving the debt crisis and what interim financing measures may have to be taken for those countries which have no possibility of continuing to service their debts even in the event of a vigorous economic recovery;	1. Senate version requires study on IMF gold disposition to include feasibility of gold loans to members as well as study of impact of gold disposition not only on credit markets but also on price of gold and members' gold reserves. 2. House bill requires: study of IMF ability to meet goal of economic growth under stabilization programs; study of feasibility of temporary supplemental financing facilities at the Fund; recommendations for amendments to IMF Articles to improve Fund's role in the system. 3. Senate version requires report on potential impact on IMF quota increases on world oil prices; whether LDC debt should be restructured systematically; how global economic recovery will affect LDC debt service; whether IMF resources will be adequate; role of IMF in LDC financing needs; role of IMF in improving the system.	Both House and Senate versions are acceptable. Senate could recede to House as to Sec. 103 of Senate version and House recede to Senate on Secs. 105 and 106.

Subject: Secretary's report p. 2

House version	Senate version	Substantive Difference	Recommended Position
	(3) whether the International Monetary Fund, which is increasingly being used as a source of credit to finance balance of payments deficits, has adequate resources to cover all conceivable requests for credit extensions taking into account the quota increase consented to under this Act; (4) what role the United States Government sees for the International Monetary Fund in providing finance and credit to the least developed countries who have such a limited capacity to borrow to finance payments deficits; and (5) pursuant to the agreement at the Williamsburg summit, what progress has been made in the consultations among finance ministers and the managing director of the International Monetary Fund on the conditions for improving the international monetary system.		

Subject: Human Needs Report

HUMAN NEEDS REPORT SEC. 315. Section 33 of the Bretton Wooc Agreements Act (22 U.S.C. 286s) is amende by adding at the end thereof the followin: "(d) Not later than one hundred an eighty days after the date of the enactmer of this subsection, the Secretary of th Treasury shall transmit a report to th Committee on Banking, Housing, and Urba Affairs and the Committee on Foreign Rel tions of the Senate and the Committee c Banking, Finance, and Urban Affairs of th House of Representatives specifying the a tions which have been taken to carry o the provisions of this section.".			House version acceptable.

Subject: New provision: Schumer amendment as amended by House Banking Cttee.

House version	Senate version	Substantive Difference	Recommended Positi
SUSTAINING ECONOMIC GROWTH SEC. 309. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SUSTAINING ECONOMIC GROWTH "SEC. 48. (a)(1) The President shall instruct the Secretary of the Treasury, the Secretary of State, and other appropriate Federal officials, including the Chairman of the Board of Governors of the Federal Reserve System, to use all appropriate means to encourage countries to formulate economic adjustment programs to deal with their balance of payment difficulties and external debt owed to private banks. "(2) Such economic adjustment programs should be designed to safeguard, to the maximum extent feasible, international economic growth, world trade, employment, and the long-term solvency of banks, and to minimize the likelihood of civil disturbances in countries needing economic adjustment programs. "(b) To ensure the effectivenes of economic adjustment programs supported by Fund resources— "(1) the United States Executive Director of the Fund shall recommend and shall work for changes in Fund guidelines, policies, and decisions which would— "(A) convert short-term bank debt which was made at high interest rates into long-term debt at lower rates of interest; "(B) assure that the annual external debt service, which shall include principal, interest, points, fees, and other charges required of the country involved, is a manageable and prudent percentage of the projected appeal expect earnings of such country; and "(C) provide that in approving any economic adjustment program the Fund shall take into account the number of countries applying to the Fund for economic adjustment programs and the aggregate effects that such programs will have on international economic growth, world trade, exports and employment of other member countries, and the long-term solvency of banks. "(2)(A) Except as provided in subparagraph (B), the United States Executive Director of the Fund shall oppose and vote against providing assistance from the Fund for any economic adjustment program for a country in which the annual external debt service exceeds 85 per centum of the annual export earnings of such country unless the United States Executive Director of the Fund first determines and provides written documentation to the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives that—			Oppose requirement that IMF adjustment programs provide that short-term bank debt at high interest rates be converted into "long-term debt at lower interest rates." Recommend language providing that programs "work toward" conversion of such debt into "longer-term debt at moderate interest rate spreads."

Subject: Schumer amendment p. 2

House version	Senate version	Substantive Difference	Recommended Position
"(i) the economic adjustment program converts short-term bank debt which was made at high interest rates into long-term debt at lower rates of interests; "(ii) the annual external debt service required of the country involved is a manageable and prudent percentage of the projected annual export earnings of such country; and "(iii) the economic adjustment program will not have an adverse impact on international economic growth, world trade, exports, and employment of other member countries, and the long-term solvency of banks. "(B) The provisions of subparagraph (A) shall not apply in any case in which the United States Executive Director of the Fund first determines and provides written documentation to the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives that— "(i) an emergency exists in a nation that has applied to the Fund for assistance that requires an immediate short-term loan to avoid disrupting orderly financial markets; "(ii) a sudden decrease in export earnings in the country applying to the Fund for assistance has increased the ratio of annual external debt service to annual export earnings, to greater than 85 per centum for a period projected to be no more than one year; or "(iii) other extraordinary circumstances exist which warrant waiving the provisions of subparagraph (A). "(c) The National Advisory Council on International Monetary and Financial Policies shall include in each of its annual reports to the Congress copies of the analyses and any written documentation prepared by the United States Executive Director of the Fund pursuant to paragraphs (2)(A) or (2)(B) of subsection (b) and a statement detailing the actions and progress made in carrying out the requirements of subsections (a) and (b).".			

Subject: Promoting growth in U.S. economy by assuring credit for domestic economy

House version	Senate version	Substantive Difference	Recommended Position
PROMOTING DOMESTIC ECONOMIC GROWTH AND EMPLOYMENT SEC. 310. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "**PROMOTING DOMESTIC ECONOMIC GROWTH AND EMPLOYMENT** "SEC. 49. (a)(1) The cornerstone of a healthy world economy and international trading and financial system is a growing domestic economy in the United States with price stability and low interest rates. "(2) Sustained noninflationary economic growth in the United States, full employment in United States basic industries, and a robust economy are essential to avoiding the imposition of protectionist barriers that would inhibit the free flow of trade and undermine the economic and financial stability of countries using the Fund. "(3) Provision of adequate credit at affordable rates of interest to the United States economy by the United States banking system is essential to promoting a growing domestic economy. "(b) To that end, and especially to provide working capital to promote the expansion of domestic industries, the appropriate Federal banking agencies, as defined in section 402 of the International Lending Supervision Act of 1983, are directed to develop regulations to implement subsections (c) through (f) within thirty days of the date of the enactment of this section. "(c) This section shall apply to all banking institutions which have foreign loans which are excessive. A banking institution's loans shall be considered excessive if the aggregate of such loans to public and private sector borrowers in a foreign country described in section 404 of such Act exceeded such banking institution's primary capital on June 30, 1983, or on any date thereafter until January 1, 1986. "(d)(1) Except as provided in subsections (e) and (f), from the date of the enactment of this section until January 1, 1986, no banking institution having excessive loans under subsection (c) shall make any new loans to foreign countries described in section 404 of such Act if such loans shall cause the growth rate of such banking institution's aggregate loans to all such foreign countries to exceed one-half of the growth rate of such banking institution's aggregate loans to all such foreign countries during the period of January 1, 1980, through June 30, 1982.			House version acceptable.

Subject: U.S. economy p. 2

House version	Senate version	Substantive Difference	Recommended Positiv
"(2) Notwithstanding the provisions of this section, banking institutions may honor binding commitments, which were effective before July 30, 1983, to lend in such countries. "(e)(1) Any banking institution having excessive loans under subsection (c) may exceed the limits set forth in subsection (d) if the annual rate of growth of such banking institution's domestic lending exceeds the limit so specified. "(2) In such cases, the rate of growth of aggregate loans to all foreign countries described in section 404 of such Act shall not exceed the rate of growth of domestic lending. "(f) This section shall not be enforced if— "(1) the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System find that such enforcement would adversely affect the domestic economy; or "(2) the President determines that enforcement of this section would be detrimental to the national interest.".			

Subject: Opposing Fund bail-outs of banks

House version	Senate version	Substantive Difference	Recommended Position
OPPOSING FUND BAILOUTS OF BANKS SEC. 312. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "OPPOSING FUND BAILOUTS OF BANKS "SEC. 50. Except as provided in section 48 (a section entitled 'Sustaining Economic Growth'), the Secretary of the Treasury shall instruct the United States Executive Director of the Fund— "(1) to oppose and vote against any Fund drawing by a member country where, in his judgment, the Fund resources would be drawn principally for the purpose of repaying loans which have been imprudently made by banking institutions to the member country; and "(2) to work to insure that the Fund encourages borrowing countries and banking institutions to negotiate, where appropriate, a rescheduling of debt which is consistent with safe and sound banking practices and the country's ability to pay.".			House version acceptable

Subject: Loans only to contributing countries

House version	Senate version	Substantive Difference	Recommended Position
	§102 SEC. 47. The Secretary of the Treasury shall instruct the United States Executive Director to the International Monetary Fund to oppose the use of any funds in the General Arrangements to Borrow facility for loans to countries other than those who have contributed to the General Arrangements to Borrow facility, unless the Secretary determines, and so notifies the Congress in writing together with his reasons for such determination, that the commitment of any part of such funds is necessary to deal with international economic conditions which could threaten the international monetary system.".		Senate version acceptable.

Subject: Trade provisions

House version	Senate version	Substantive Difference	Recommended Position
Subject: surplus commodities SURPLUS COMMODITIES REPORT SEC. 314. (a) Section 4(b) of the Bretton Woods Agreements Act (22 U.S.C. 286b) is amended— (1) in paragraph (5)— (A) by inserting "(A)" after "(5)"; and (B) by adding at the end thereof the following: "(B) Beginning one hundred and eighty days after the date of the enactment of this paragraph, and at intervals of one hundred and eighty days thereafter for the next three years, the Council shall prepare and transmit to the President and to the Congress a report listing all applications which have been filed during the preceding one hundred and eighty days with the Fund and with the Bank for project assistance which would establish or enhance the capacity o any country to produce a commodity fo: export, if— "(i) such commodity is in surplus on worl markets or is likely to be in surplus on worl markets at the time the resulting productiv capacity is expected to become operative and "(ii) such project assistance will cause sub stantial injury to the United States produc ers of the same, similar, or competing com modity."; and (2) by adding at the end thereof the fol lowing: "(8) The general policy objectives for th guidance of the United States Executive D: rector of the Fund and the Bank shall tak into account the effect that country adjus ment programs have upon individual indu try sectors and international commodit markets— "(A) to minimize projected adverse in pacts; and "(B) to avoid, wherever possible, gover ment subsidization of production and e ports of international commodities witho regard to economic conditions in the ma kets for such commodities.".	TITLE I—BRETTON WOODS AGREEMENTS ACT AMENDMENTS SEC. 101. (a) Section 4(b) of the Bretton Woods Agreements Act (22 U.S.C. 286b) is amended— (1) by amending subparagraph (5) to read as follows: "(5)(A) The Council shall transmit to the President and to the Congress an annual report with respect to the participation of the United States in the Fund and in the Bank. "(B) Beginning ninety days after the date of enactment of this Act, and at intervals of ninety days thereafter for the next three years, the Council shall prepare and transmit to the President and to the Congress a report listing all applications which have been filed during the preceding ninety days with the Fund and with the Bank for assistance which would establish or enhance the capacity of any country to produce a commodity for export, if— "(i) such commodity is in surplus on world markets or is likely to be in surplus on world markets at the time the resulting productive capacity is expected to become operative; and "(ii) such assistance will cause substantial injury to United States producers of the same, similar, or competing commodity.". (2) by inserting a new subparagraph (8) to read as follows: "(8) The general policy objectives for the guidance of representatives of the United States on the Fund and the Bank shall take into account the effect that country adjustment programs have upon individual industry sectors and international commodity markets (i) to minimize any projected adverse impacts; and (ii) to avoid wherever possible government subsidization of production and exports of international commodities without regard to economic conditions in the markets for such commodities.".	Identical provisions except that House provision requires reports every 180 days rather than every 90 days.	House version could be accepted with amendment to make provision applicable to IBRD but not IMF.

Subject: Trade provisions p. 3 elimination of unfair trade practices and subsidies

House version	Senate version	Substantive Difference	Recommended Position
	§102 SEC. 46. (a) The Secretary of the Treasury shall instruct the United States Executive Director to the Fund, prior to the extension to any country of financial or technical assistance by the Fund, to work to obtain the agreement of such country to eliminate, in a manner consistent with its balanced payments adjustment program, unfair trade and investment practices, such as those which are inconsistent with the General Agreement on Tariffs and Trade or other international agreements, including the provision of export subsidies such as government subsidized below-market interest rate financing for commodities or manufactured goods, the maintenance of unreasonable import restrictions, or the imposition of trade-related performance requirements on foreign investment, which the Secretary of the Treasury, after consultation with the United States Trade Representative, the Secretary of Commerce, and the Secretary of Labor, has determined to have a significant deleterious effect on the international trading system. "(b) In determining the United States position on requests for periodic drawings under Fund programs, the Secretary of the Treasury shall take full account of the progress countries have made in achieving targets for eliminating or phasing out the unfair trade practices referred to in subsection (a) of this section. In the event that the United States supports a request for drawing by a country that has not achieved the Fund targets relating to such practices specified in its program, the Secretary shall report to the appropriate committees of Congress the reasons for the United States position. "...	Similar but not identical issues covered in House version Sec. 305 and Senate version Sec. 102.	Senate version acceptable.

Subject: Nuclear non-proliferation

House version	Senate version	Substantive Difference	Recommended Position
NON-PROLIFERATION OF NUCLEAR WEAPONS SEC. 316. The Bretton Woods Agreemen Act (22 U.S.C. 286 et seq.) is amended l adding at the end thereof the following: "NON-PROLIFERATION OF NUCLEAR WEAPONS SEC. 52. The United States Executive I rector of the Fund shall consider, if appr priate, in carrying out his duties, whether recipient country has detonated a nucle device, whether the country is not a Sta Party to the Treaty on Non-Proliferation Nuclear Weapons, and whether the count is not a State Party to the Treaty Banni Nuclear Weapon Tests in the Atmosphe: in Outer Space, and Under Water.".			House version acceptable.

Subject: IMF policies on international lending

House version	Senate version	Substantive Difference	Recommended Position
POLICIES ON INTERNATIONAL LENDING SEC. 317. The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to propose that the Fund adopt the following policies with respect to international lending: (1) in its consultations with a member government on its economic policies pursuant to Article IV of the Fund Articles of Agreement, the Fund should intensify its examination of the trend and volume of external indebtedness of private and public borrowers in the member country and comment as appropriate in its report to the Executive Board from the viewpoint of the contribution of such borrowings to the economic stability of the borrower, and the Fund should consider the extent that and form in which these comments should be made available to appropriate national bank regulatory authorities, the international banking community, and the public; (2) as part of any Fund-approved stabilization program, the Fund should give consideration to placing limits on public sector external short- and long-term borrowing; and (3) as a part of its annual report, and at such other times as it may consider desirable, the Fund should publish its evaluation of the trend and volume of international lending as they affect the economic situation of lenders and borrowers, and the smooth functioning of the international monetary system.	**INTERNATIONAL COOPERATION** SEC. 208. (a) The Secretary of the Treasury shall instruct the United States Executive Director to the International Monetary Fund to propose that the Fund adopt the following policies with respect to international lending: (1) In its consultations with a member government on its economic policies pursuant to Article IV of the Fund Articles of Agreement, the Fund should intensify its examination of the trend and volume of external indebtedness of private and public borrowers in the member country and comment as appropriate in its report to the Executive Board from the viewpoint of the contribution of such borrowings to the economic stability of the borrower, and, the Fund should consider the extent and form that these comments might be made available to the international banking community and the public. (2) As part of any Fund-approved stabilization program, the Fund should give consideration to placing limits on public sector external short- and long-term borrowing. (3) As a part of its Annual Report, and at such times as it may consider desirable, the Fund should publish its evaluation of the trend and volume of international lending as it affects the economic situation of lenders, borrowers, and the smooth functioning of the international monetary system.		Provision acceptable

Subject: study re steel industry

House version	Senate version	Substantive Difference	Recommended Position
STUDY SEC. 318. Section 4 of the Bretton Woods Agreements Act is amended by adding at the end thereof the following: "(d)(1) The National Advisory Council on International Monetary and Financial Policies shall conduct a study of the impact on the United States steel industry of steel subsidies by nations who are borrowers from the Fund. "(2) Not later than twelve months after the date of the enactment of this subsection, the Council shall transmit a report to the President and both Houses of the Congress regarding the Council's findings and recommendations for appropriate action.".			House version acceptable.

Subject: Reimbursement from beneficiaries of quota increases

House version	Senate version	Substantive Difference	Recommended Position
REIMBURSEMENT FROM BENEFICIARIES OF QUOTA INCREASES SEC. 321. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "REIMBURSEMENT FROM BENEFICIARIES OF QUOTA INCREASES "SEC. 54. (a) The Congress hereby finds— "(1) depository institutions have charged excessive rates of interest on loans made to foreign countries; "(2) such excessive rates of interest were often imposed in order to compensate for the declared high-risk rate of lending to such countries; "(3) the United States Government, by increasing its quota contribution to the International Monetary Fund, has substantially reduced the risk of lending to those foreign countries which benefit from the increased resources of the International Monetary Fund; "(4) such quota contribution by the United States Government will result in a considerable financial burden to the American taxpayer; and "(5) permitting depository institutions to retain the profits earned from the excessive interest rates charged to such foreign countries results in unjust enrichment to such depository institutions in light of the increase in the United States quota contribution. "(b) Each depository institution shall transmit a report to the Secretary of the Treasury specifying— "(1) all loans made by such depository institution to any foreign country; "(2) with respect to each such loan— "(A) the rate of interest charged on such loan; "(B) all service fees imposed on such loan; "(C) the unpaid balance on such loan; "(D) the total amount of interest collected on such loan; and "(E) such other information as may be requested by the Secretary. "(c)(1) The Secretary may examine the books and records of any depository institution in order to insure compliance with the provisions of this section. "(2) The Secretary shall consult with the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and other appropriate Federal and State regulatory agencies in order to obtain information on foreign loans by depository institutions which may have been reported to such agencies.			Requirement that "excessive interest" be paid to Treasury should be modified. Recommend a requirement that Treasury inform the IMF of "excessive interest" payments so that Fund can determine whether payment of such interest violates any applicable Fund program provision.

Subject: reimbursement p. 2

House version	Senate version	Substantive Difference	Recommended Position
"(d)(1) The Secretary shall determine which loans made by depository institutions or subsidiaries thereof have been extended, refinanced, or made more secure, or in any other manner affected by the increased United States quota contribution to the International Monetary Fund made pursuant to section 40. "(2) The Secretary shall determine the interest rate charged, and the interest rate earned, on such loans. All such interest rates shall be determined in accordance with provisions of the Truth in Lending Act and the regulations issued pursuant to such Act. "(e)(1) With respect to loans identified in subsection (d), the Secretary shall determine which loans have earned for the depository institution involved a rate of return which is greater than the rate of return which would have been earned by such depository institution if the principal amount involved had been lent in the United States to a corporate borrower with a rating of AAA for a similar maturity. "(2) The amount determined by the Secretary to have been earned in excess of the amount which would have been earned from a domestic loan (as determined under paragraph (1)) shall be paid to the Treasury as a reimbursement for the increased quota contribution made pursuant to section 40 of this Act. "(f) For purposes of this section— "(1) the term 'depository institution' shall have the same meaning given such term in section 19(b)(1)(A) of the Federal Reserve Act; "(2) the term 'loan' means any extension of credit to— "(A) a foreign government or any agency or instrumentality thereof; "(B) any entity owned in whole or in part by a foreign government unless United States persons own at least 10 per centum of such entity; "(C) any entity which is not more than 10 per centum owned by United States persons.".			

Subject: Borrowing by the Fund

House version	Senate version	Substantive Difference	Recommended Position
NOTICE TO CONGRESS REGARDING BORROWING IN UNITED STATES CREDIT MARKETS SEC. 322. Section 5 of the Bretton Woods Agreements Act (22 U.S.C. 286c) is amended by adding at the end thereof the following: "Neither the President nor any person or agency shall, on behalf of the United States, consent to any borrowing (other than borrowing from a foreign government or other official public source) by the Fund of funds denominated in United States dollars unless the Secretary of the Treasury transmits a notice of such proposed borrowing to both Houses of the Congress at least sixty days prior to the date on which such borrowing is scheduled to occur.".			House version acceptable.

Subject: Salaries of Fund employees

House version	Senate version	Substantive Difference	Recommended Position
SALARIES OF EMPLOYEES OF THE FUND SEC. 323. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SALARIES OF EMPLOYEES OF THE FUND "SEC. 55. Notwithstanding section 40 of this Act, the United States Governor of the Fund may not consent to the increase in the United States quota in the Fund which is described in such section unless the United States Governor of the Fund is satisfied that the Fund has established, and will maintain, requirements that— "(1) employees of the Fund (including the Managing Director, Executive Directors, Alternate Executive Directors, and the staff of the Fund) may not be paid at a rate in excess of the rate payable for an individual occupying a position at level IV of the Executive Schedule under section 5315 of title 5, United States Code; and "(2) advances on salaries and other loans to employees may not be made at a rate of interest which is less than the rate of interest charged on loans (for one-to four-family dwellings) insured under title II of the National Housing Act on the date on which such advance or loan is made.".			House should recede to Senate.

Subject: quota increase

House version	Senate version	Substantive Difference	Recommended Position
Subject: payment of in SDR "basket" currencies PAYMENT OF QUOTA INCREASE SEC. 325. The Bretton Woods Agreement Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "PAYMENT OF QUOTA INCREASE "SEC. 57. The Secretary of the Treasury shall instruct the United States Executive Director of the Fund to propose and work for the adoption of an amendment to article III of the Articles of Agreement of the Fund to provide that the balance of any quota increase shall be paid by member countries in United States dollars, German marks, French francs, British pounds, or Japanese yen.".	quota increase		Senate should recede to House with amendment that U.S. work for adoption of IMF policies to provide that all members' currencies should be useable in operations based on uniform criteria.

Subject: Definitions and findings re international lending

House version	Senate version	Substantive Difference	Recommended Position
TITLE IV—INTERNATIONAL LENDING SUPERVISION SEC. 401. This title may be cited as the "International Lending Supervision Act of 1983". DEFINITIONS SEC. 402. (a) The term "appropriate Federal banking agency" has the same meaning assigned to the term in section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. 1813(q)), and, for purposes of this title, the "appropriate Federal banking agency" for bank holding companies and any nonbank subsidiary thereof, Edge Act corporations organized under section 25(a) of the Federal Reserve Act (12 U.S.C. 611-631), and agreement corporations operating subject to section 25 of the Federal Reserve Act (12 U.S.C. 601-604(a)) is the Board of Governors of the Federal Reserve System. (b) The term "banking institution", for purposes of this title, means any "insured bank", as that term is used in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)) or any subsidiary of an insured bank; any Edge Act corporation organized under section 25(a) of the Federal Reserve Act (12 U.S.C. 611-631); and any agreement corporation operating subject to section 25 of the Federal Reserve Act (12 U.S.C. 601-604(a)). To the extent determined by the appropriate Federal banking agency, the term "banking institution" shall also include any agency or branch of a foreign bank, and any commercial lending company owned or controlled by one or more foreign banks or companies that control a foreign bank as those terms are defined in the International Banking Act of 1978 (12 U.S.C. 3101). The term "banking institution" shall not include a foreign bank.	**TITLE II—INTERNATIONAL LENDING SUPERVISION** SEC. 201. This title may be cited as the "International Lending Supervision Act of 1983". FINDINGS; DECLARATION OF POLICY SEC. 202. (a) The Congress recognizes that prudent international lending plays an important role in growth of world trade and the health of the United States and world economy, that United States banking institutions are important participants in this process, and that from time to time external financial imbalances will develop as countries pursue differing economic policies suited to their individual circumstances. The Congress finds, however, that in recent years banking institutions have extended large amounts of credit to borrowers in some forieign countries which, as a result of strained economic conditions worldwide, have been unable to acquire foreign exchange for the payment of their external debts. (b) In these circumstances, it is the policy of the Congress to assure that the economic health and stability of the United States banking system is not adversely affected in the future by concentrations of credit to borrowers which may experience serious external payments problems, and to maintain international lending to support world trade, United States exports, and the required economic adjustments in countries where adequate stabilization programs are in place. The Congress finds that these concerns should be addressed by strengthening the banking regulatory framework to encourage prudent private decisionmaking on international lending, by enhancing international cooperation among banking regulatory authorities, and by encouraging the early adoption of sound adjustment policies by borrowing countries. DEFINITIONS SEC. 203. For purposes of this title— (1) the term "appropriate Federal banking agency" has the same meaning as in section 3(q) of the Federal Deposit Insurance Act (12 U.S.C. 1813(q)); (2) the "appropriate Federal banking agency" for bank holding companies and nonbank subsidiaries thereof, Edge Act corporations organized under section 25(a) of the Federal Reserve Act (12 U.S.C. 611-631), and agreement corporations operating subject to section 25 of the Federal Reserve Act (12 U.S.C. 601-604(a)) is the Board of Governors of the Federal Reserve System;	Definitions are the same. Senate version has "findings."	House could recede to the Senate.

Subject: definitions p. 2

House version	Senate version	Substantive Difference	Recommended Position
	(3) the term "banking institution" means any insured bank as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)) or any subsidiary of an insured bank, any Edge Act corporation organized under section 25(a) of the Federal Reserve Act (12 U.S.C. 611-631), and any agreement corporation operating subject to section 25 of the Federal Reserve Act (12 U.S.C. 601-604(a)); and (4) the term "banking institution" also includes, to the extent determined by the appropriate Federal banking agency, any agency or branch of a foreign bank, and any commercial lending company owned or controlled by one or more foreign banks or companies that control a foreign bank as those terms are defined in the International Banking Act of 1978 (12 U.S.C. 3101), but such term does not include a foreign bank.		

Subject: strengthened supervision

House version	Senate version	Substantive Difference	Recommended Position
STRENGTHENED SUPERVISION OF INTERNATIONAL LENDING SEC. 403. Each appropriate Federal banking agency shall evaluate banking institution foreign country exposure and transfer risk for use in banking institution examination and supervision. Each such agency shall establish examination and supervisory procedures to assure that factors such as foreign country exposure and transfer risk are taken into account in evaluating the adequacy of the capital of banking institutions.	**STRENGTHENED SUPERVISION OF INTERNATIONAL LENDING** SEC. 204. Each appropriate Federal banking agency shall evaluate banking institution foreign country exposure and transfer risk for use in banking institution examination and supervision. Each such agency shall establish examination and supervisory procedures to assure that factors such as foreign country exposure and transfer risk are taken into account in evaluating the adequacy of the capital of banking institutions.		Support

Subject: Reserves

House version	Senate version	Substantive Difference	Recommended Positi
RESERVES SEC. 404. (a) Each appropriate Federal banking agency shall require, by regulation, a banking institution to establish and maintain a special reserve whenever in the judgment of such agency: (1) the quality of such institution's assets has been impaired by a protracted inability of public or private borrowers in a foreign country to make payments on their external indebtedness as indicated by such factors, among others, as a failure by such public or private borrowers to make full interest payments on external indebtedness, or to comply with the terms of any restructured indebtedness, or a failure by the foreign country to comply with any International Monetary Fund or other suitable adjustment program, or where no definite prospects exist for the orderly restoration of debt service; or (2) there is a substantial likelihood that such debt cannot reasonably be expected to be repaid in accordance with its original terms and conditions without additional borrowing or a major restructuring. (b) The appropriate Federal banking agency shall have the discretion to grant reasonable time periods to a banking institution required to establish such a special reserve to come into compliance with the requirement, if such action is taken to avoid disrupting orderly international lending. (c) Special reserves established pursuant to this section shall be charged against current income and shall not be considered as part of capital and surplus or allowances for possible loan losses for bank regulatory or supervisory purposes. (d) The appropriate Federal banking agencies shall promulgate regulations or orders necessary to implement this section within one hundred and twenty days after the date of enactment of this title.	**RESERVES** SEC. 205. Each appropriate Federal banking agency shall require a banking institution to establish and maintain a special reserve whenever in the judgment of such agency the quality of such institution's assets has been impaired by a protracted inability of public or private borrowers in a foreign country to make payments on their external indebtedness as indicated by such factors, among others, as a failure by such public or private borrowers to make full interest payments on external indebtedness, or to comply with the terms of any restructured indebtedness, or a failure by the foreign country to comply with any International Monetary Fund or other suitable adjustment program, or where no definite prospects exist for the orderly restoration of debt service. Such reserves shall be charged against current income and shall not be considered as part of capital and surplus or allowances for possible loan losses for regulatory supervisory, or disclosure purposes.	House bill requires banks to maintain reserves if there is "substantial likelihood" that the debt will not be repaid in accordance with original terms. House bill also requires issuance of implementing regulations within 120 days.	House should recede tc the Senate and delete provision that require reserves against loans likely to be restructured.

Subject: Lending fees

House version	Senate version	Substantive Difference	Recommended Position
Subject: Accounting			
ACCOUNTING FOR FEES ON INTERNATIONAL LOANS SEC. 405. (a) The appropriate Federal banking agencies shall promulgate regulations for accounting for agency, commitment, management and other fees charged by a banking institution in connection with an international loan. Such regulations shall establish the accounting treatment of such fees for regulatory and supervisory purposes to assure that the appropriate portion of such fees is accrued in income over the effective life of each such loan. (b) The appropriate Federal banking agencies shall promulgate regulations or orders necessary to implement this section within one hundred and twenty days after the date of the enactment of this title.	ACCOUNTING FOR FEES ON INTERNATIONAL LOANS SEC. 206. Each appropriate Federal banking agency shall establish rules or regulations for accounting for agency, commitment, management, and other fees charged by a banking institution in connection with international lending. Such rules or regulations shall establish the accounting treatment of such fees for regulatory and disclosure purposes, to assure that the appropriate portion of such fees is accrued in income over the effective life of the loans.	House bill requires agencies to promulgate rules within 120 days from enactment. Senate bill refers to accounting treatment of fees for regulatory and disclosure purposes - House refers to regulatory and supervisory purposes.	Senate may defer to the House.
Subject: Front end fees			
PROHIBITION OF FRONT END FEES SEC. 311. (a) In order to avoid excessive debt service burdens on debtor countries, no banking institution shall charge, in connection with the restructuring of an international loan, any fee exceeding the administrative cost of the restructuring unless it amortizes such fee over the effective life of each such loan. (b) The requirement of subsection (a) shall take effect on the date of the enactment of this section. Each appropriate Federal banking agency shall promulgate such regulations as are necessary to further carry out the provisions of this section.			House version acceptable. Sec. 311 could be combined with section 405 to avoid repetition.

Subject: fees p.2

House version	Senate version	Substantive Difference	Recommended Position
Subject: Renegotiation fees **PROHIBITION ON RENEGOTIATION FEES** SEC. 319. (a)(1) Notwithstanding any other provision of law (including any other provision of this title), in order to avoid excessive debt service burdens on debtor countries, no banking institution shall charge, in connection with the restructuring of an international loan, any fee exceeding the administrative cost of the restructuring. (2) Notwithstanding any other provision of law (including any other provision of this title), any fee which is authorized to be charged under paragraph (1) shall be amortized over the effective life of the loan involved. (b) The requirements of subsection (a) shall take effect on the date of the enactment of this section. Each appropriate Federal banking agency shall promulgate such regulations as are necessary to further carry out the provisions of this section. SEC. 320. The Bretton Woods Agreements Act (22 U.S.C. 286 et seq.) is amended by adding at the end thereof the following: "SEC. 53. The Secretary of the Treasury shall instruct the United States Executive Director to the Fund to propose and work for the adoption of Fund policies regarding the rate of remuneration paid on use of member's quota subscriptions and the rate of charges on Fund drawings to bring those rates in line with market rates. The Secretary of the Treasury shall report to the appropriate Committees of Congress within one hundred and eighty days of enactment the progress made in implementing this provision.".			Provision should be amended to allow agency fees.

Subject: Collection and disclosure of lending information.

House version	Senate version	Substantive Difference	Recommended Position
COLLECTION AND DISCLOSURE OF CERTAIN INTERNATIONAL LENDING DATA SEC. 406. (a) Each appropriate Federal banking agency shall require, by regulation, each banking institution with foreign country exposure to submit, no fewer than four times each calendar year, such information regarding that exposure in a format prescribed by such regulations. (b) Each appropriate Federal banking agency shall require, by regulation, banking institutions to disclose to the public information regarding material foreign country exposure in relation to assets and to capital. (c) The appropriate Federal banking agencies shall promulgate regulations or orders necessary to implement this section within one hundred and twenty days after the date of the enactment of this title.	**COLLECTION AND DISCLOSURE OF CERTAIN INTERNATIONAL LENDING DATA** SEC. 207. (a) Each appropriate Federal banking agency is authorized to require each banking institution with foreign country exposure to submit, no fewer than four times each calendar year, such information regarding that exposure in such format as the agency shall prescribe. (b) Each appropriate Federal banking agency shall require banking institutions to disclose to the public information regarding material foreign country exposure in relation to assets and to capital in such form as is deemed necessary or appropriate in the public interest.	Senate version gives each agency authority to collect information from banks at least 4 times a year, while House version is mandatory. House bill requires regulations within 120 days.	Senate can defer to House.

Subject: International co-operation

House version	Senate version	Substantive Difference	Recommended Position
INTERNATIONAL COOPERATION AND STUDY OF INTERNATIONAL SUPERVISION SEC. 407. The Federal banking agencies shall consult with the banking supervisory authorities of other countries to reach understandings aimed at achieving the adoption of effective and consistent supervisory policies and practices with respect to international lending.	SEC. 104. It is the sense of the Congress that there should be meetings on a regular basis between representatives of the International Monetary Fund and of the Contracting Parties to the General Agreement on Tariffs and Trade to ensure closer cooperation and more frequent sharing of information on the monetary-trade link. §208 (b) The Federal banking agencies shall consult with the banking supervisory authorities of other countries to each understandings aimed at achieving the adoption of consistent supervisory policies and practices with respect to international lending.	House version does not have provision for IMF - GATT cooperation.	Senate version acceptable.

Subject: Capital adequacy

House version	Senate version	Substantive Difference	Recommended Positi
CAPITAL ADEQUACY SEC. 408. (a)(1) Each appropriate Federal banking agency shall cause banking institutions to achieve and maintain adequate capital by establishing minimum levels of capital for such institutions and by using such other methods as the agency deems appropriate. (2) Each appropriate Federal banking agency shall have the authority to establish such minimum level of capital for an institution as the agency, in its discretion, deems to be necessary or appropriate in light of the particular circumstances of the institution. (b)(1) Failure of a banking institution to maintain capital at or above its minimum level as established pursuant to subsection (a) may be deemed by the appropriate Federal banking agency, in its discretion, to constitute an unsafe and unsound practice within the meaning of section 8 of the Federal Deposit Insurance Act. (2)(A) In addition to, or in lieu of, any other action authorized by law, including subsection (b)(1), the appropriate Federal banking agency may issue a directive to a banking institution that fails to maintain capital at or above its required level as established pursuant to subsection (a). (B)(i) Such directive may require the institution to submit and adhere to a plan acceptable to the agency describing the means and timing by which the institution shall achieve its required capital level. (ii) Any such directive issued pursuant to this paragraph, including plans submitted pursuant thereto, shall be enforceable under the provisions of section 8(i) of the Federal Deposit Insurance Act to the same extent as an effective and outstanding order issued pursuant to section 8(b) of such Act which has become final. (3)(A) Each appropriate Federal banking agency may consider such institution's progress in adhering to any plan required under this subsection whenever such institution, or an affiliate thereof, or the holding company which controls such institution, seeks the requisite approval of such agency for any proposal which would divert earnings, diminish capital, or otherwise impede such institution's progress in achieving its minimum capital level. (B) Such agency may deny such approval where it determines that such proposal would adversely affect the ability of the institution to comply with such plan. (C) The Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury shall encourage governments, central banks, and regulatory authorities of other major banking countries to work toward maintaining and, where appropriate, strengthening the capital bases	CAPITAL ADEQUACY SEC. 209. Each appropriate Federal banking agency shall require banking institutions to maintain adequate levels of capital. Each such agency may establish reasonable time periods for a banking institution to comply with such capital requirements.	House bill is more detailed regarding banking agencies' authority to enforce capital adequacy guidelines and adopts new procedure for issuing orders to increase capital levels. House bill also directs the Fed Chairman and Treasury Secretary to encourage foreign banking authorities to strengthen bank's capital levels.	House should defer tc simpler Senate versio which gives the agencies broad discretion to set and enforce capital levels

Subject: Lending to overseas mining operations

House version	Senate version	Substantive Difference	Recommended Position
FOREIGN LOAN EVALUATIONS SEC. 409. (a)(1) No banking institution shall extend credit, whether by loan, lease, guarantee, or otherwise, which individually or in the aggregate exceeds $1,000,000, to finance any project involving the construction or operation of any mining, processing or manufacturing facility located outside the United States or its territories and possessions unless a written economic feasibility evaluation of such foreign project is prepared and approved in writing by a senior official of such banking institution. (2) Such evaluation shall— (A) take into account the profit potential of the project, the impact of the project on world markets, the inherent competitive advantages and disadvantages of the project over the entire life of the project, and the likely effect of the project upon the overall long term economic development of the country in which the project is located; (B) document that the extension of credit can reasonably be expected to be repaid from revenues generated by such foreign project without regard to any subsidy or guarantee provided by the government involved, any instrumentality of any country, or by any international organization; and (C) shall be available to representatives of the appropriate Federal banking agency and such other individuals and entities as have lawful access to such information. (b) Such economic feasibility evaluations shall be reviewed by representatives of the appropriate Federal banking agencies whenever an examination by such appropriate Federal banking agency is conducted.	**LENDING TO OVERSEAS MINING OPERATIONS** SEC. 211. (a) No banking institution shall extend credit, whether by loan, lease, guarantee, or otherwise, to finance all or any portion of any project, which project: (1) has as its principal objective the construction, establishment, or major expansion of any mining operation, or any metal or mineral processing or fabricating facility or operation, located outside the United States or its territories or possessions, and (2) can reasonably be expected to require aggregate development expenditures (including all costs of construction and establishment) in excess of $25,000,000, unless a written economic feasibility evaluation of such foreign project is prepared by or for such banking institution and approved in writing by a senior official of such banking institution; or if such loan is made as a part of a bank consortium loan, prepared by or for a banking institution managing such consortium and approved in writing by a senior official of such managing banking institution. (b) Such economic feasibility evaluation shall take into account the profit potential of the foreign project, the impact of the project on world markets, the impact on United States industry and employment, the inherent competitive advantages and disadvantages of the project, the likely effect of the project upon the overall long-term economic development of the country in which the project would be located, and whether the extension of credit can reasonably be expected to be repaid over the life of the project without regard to any subsidy including but not limited to those listed in the Annex of the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade provided by the government of the country in which the project would be located, or by any instrumentality of that government.	Senate version has higher threshold triggering requirement of written feasibility study ($25 million project rather than any loan above $1 million); slight differences in factors to be included in feasibility study; House version requires feasibility studies be available to bank examiners.	Conference could compromise at a higher threshold and on some of factors in study; add a provision allowing no private cause of action and no civil or other penalty applied by any government agency for failure of a bank to comply with the provisions.

Subject: International lending: general authorities of banking agencies

House version	Senate version	Substantive Difference	Recommended Position
GENERAL AUTHORITIES SEC. 410. (a) The appropriate Federal banking agencies are authorized to interpret and define the terms used in this title, and each appropriate Federal banking agency shall prescribe rules or regulations or issue orders as necessary to effectuate the purposes of this title and to prevent evasions thereof. The appropriate Federal banking agency is authorized to apply the provisions of this title to any affiliate of an insured bank, but only to affiliates for which it is the appropriate Federal banking agency, in order to promote uniform application of this Act or to prevent evasions thereof. For purposes of this section, the term "affiliate" shall have the same meaning as in section 23A of the Federal Reserve Act (12 U.S.C. 371c(b)) except that the term "member bank" in such section shall be deemed to refer to "insured bank", as that term is used in section 402(b) of this title. (b) The appropriate Federal banking agencies shall establish uniform systems to implement the authorities provided under this title. (c) The powers and authorities granted in this title shall be supplemental to and shall not be deemed in any manner to derogate from or restrict the authority of each appropriate Federal banking agency under section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818) or any other law including the authority to require additional capital or reserves. Any such authority may be used by an agency to ensure compliance by a banking institution with the provisions of this title and all rules, regulations, or orders issued pursuant thereto. (d) Any banking institution which violates, or any officer, director, employee, agent, or other person participating in the conduct of the affairs of such banking institution, who violates any provision of this title, or any rule, regulation, or order, issued under this title, shall forfeit and pay a civil penalty of not more then $1,000 per day for each day during which such violation continues. Such violations shall be deemed to be a violation of a final order under section 8(i)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1818(i)(2)) and the penalty shall be assessed and collected by the appropriate Federal banking agency under the procedures established by, and subject to the rights afforded to parties, provided in said section.	GENERAL AUTHORITIES SEC. 210. (a) Each Federal banking agency is authorized to interpret and define the terms used in this title, and shall prescribe rules or regulatios or issue orders as necessary to effectuate the purposes of this title and to prevent evasions thereof. The appropriate Federal banking agency is authorized to apply the provisions of this title to any affiliate of an insured bank, but only to affiliates for which it is the appropriate Federal banking agency, in order to promote uniform application of this title or to prevent evasions thereof. For purposes of this section, the term "affiliate" has the same meaning as in section 23A of the Federal Reserve Act (12 U.S.C. 371c(b)), except that the term "member bank" in such section shall be deemed to refer to "insured bank". (b) The Federl banking agencies shall establish uniform systems to implement the authorities provided under this title. (c) The powers and authorities granted by this title shall be supplemental and shall not be deemed in any manner to derogate from or restrict the authority of each appropriate Federal banking agency under any other law or under section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818), including the authority to require additional capital or reserves. Any such authority may be used by an agency to ensure compliance by a banking institution with the provisions of this title and all rules, regulations or orders issued pursuant thereto. (d) The issuance of regulations, requirement of reports, and collection of information pursuant to this Act shall be exempt from the requirements of chapter 35 of title 44, United States Code and chapter 6 of title 5, United States Code.	House bill provides for civil penalties for violations by banks, employees or others. Senate bill includes no penalties provision. Senate bill provides exemption from Paperwork Reduction Act and Regulatory Flexibility Act and House bill does not.	Senate should defer to House, but work on conference language re Paperwork Reduction & Regulatory Flexibility Act exemptions.

Subject: GAO audit authority

House version	Senate version	Substantive Difference	Recommended Position
GAO AUDIT AUTHORITY SEC. 411. (a) Under regulations of the Comptroller General, the Comptroller General shall audit the appropriate Federal banking agencies (as defined in section 402(a) of this Act), but may carry out an onsite examination of an open insured bank or bank holding company only if the appropriate Federal banking agency has consented in writing. An audit under this subsection may include a review or evaluation of the international regulation, supervision, and examination activities of the appropriate Federal banking agency, including the coordination of such activities with similar activities of regulatory authorities of a foreign government or international organization. Audits of the Federal Reserve Board and Federal Reserve banks may not include— (1) transactions for or with a foreign central bank, government of a foreign country, or nonprivate international financing organization; (2) deliberations, decisions, or actions on monetary policy matters, including discount window operations, reserves of member banks, securities credit, interest on deposits, and open market operations; (3) transactions made under the direction of the Federal Open Market Committee; or (4) a part of a discussion or communication among or between members of the Board of Governors and officers and employees of the Federal Reserve System related to paragraphs (1) through (3) of this subsection. (b)(1) Except as provided in this subsection, an officer or employee of the General Accounting Office may not disclose information identifying an open bank, an open bank holding company, or a customer of an open or closed bank or bank holding company. The Comptroller General may disclose information related to the affairs of a closed bank or closed bank holding company identifying a customer of the closed bank or closed bank holding company only if the Comptroller General believes the customer had a controlling influence in the management of the closed bank or closed bank			House version acceptable. Work for Conference Committee report language clarifying the scope o GAO audit authority an assuring adequate protection of confidential information.

Subject: GAO audit authority p. 2

House version	Senate version	Substantive Difference	Recommended Position
holding company or was related to or affiliated with a person or group having a controlling influence. (2) An officer or employee of the General Accounting Office may discuss a customer, bank, or bank holding company with an official of an appropriate Federal banking agency and may report an apparent criminal violation to an appropriate law enforcement authority of the United States Government or a State. (3) This subsection does not authorize an officer or employee of an appropriate Federal banking agency to withhold information from a committee of Congress authorized to have the information. (c)(1) To carry out this section, all records and property of or used by an appropriate Federal banking agency, including samples of reports of examinations of a bank or bank holding company the Comptroller General considers statistically meaningful and workpapers and correspondence related to the reports shall be made available to the Comptroller General, including such records and property pertaining to the coordination of international regulation, supervision and examination activities of an appropriate Federal banking agency. The Comptroller General shall give each appropriate Federal banking agency a current list of officers and employees to whom, with proper identification, records and property may be made available, and who may make notes or copies necessary to carry out an audit. Each appropriate Federal banking agency shall give the Comptroller General suitable and lockable offices and furniture, telephones, and access to copying facilities. (2) Except for the temporary removal of workpapers of the Comptroller General that do not identify a customer of an open or closed bank or bank holding company, an open bank, or an open bank holding company, all workpapers of the Comptroller General and records and property of or used by an appropriate Federal banking agency that the Comptroller General possesses during an audit, shall remain in such agency. The Comptroller General shall prevent unauthorized access to records or property.			

Subject: International lending: reports to Congress

House version	Senate version	Substantive Difference	Recommended Position
Reports REPORTS TO CONGRESS SEC. 412. (a) Within one hundred and twenty days after the date of the enactment of this title, the Secretary of the Treasury shall report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives on the statutes, regulations, and examination and supervisory procedures and practices, governing international banking in each of the Group of Ten Nations and Switzerland with particular attention to such matters bearing on capital requirements, lending limits, reserves, disclosure, examiner access, and lender of last resort resources. (b) Not later than one hundred and twenty days after the date of the enactment of this title, the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury shall transmit a report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives on the progress made in reaching the goal specified in section 408(c). (c)(1) Within one year after the date of the enactment of this title and for each of the two succeeding years, the appropriate Federal banking agencies shall report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives on actions taken to implement the provisons of this title. (2) The report shall include a description of the actions taken in carrying out the objectives of the title, and any actions taken by any appropriate Federal banking agency that are inconsistent with the uniform implementation by the appropriate Federal banking agencies of their respective authorities under this title, and any recommendations for amendments to this or other legislation.	§210 (e) Within one year after the date of enactment of this title and for each of the two succeeding years, the Federal banking agencies shall report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives on actions taken to implement the provisions of this title. The report shall include a description of the actions taken in carrying out the objectives of the title, and any actions taken by any Federal banking agency that are inconsistent with the uniform implementation by the Federal banking agencies of their respective authorities under this title, and any recommendations for amendments to this title or any other provision of law.	House bill requires Treasury Secretary to report after 4 months on foreign laws and supervisory procedures.	Senate can recede to the House.

Subject: FDIC representation

House version	Senate version	Substantive Difference	Recommended Position
EQUAL REPRESENTATION FOR THE FEDERAL DEPOSIT INSURANCE CORPORATION SEC. 413. As one of the three Federal bank regulatory and supervisory agencies, and as the insurer of the United States banks involved in international lending, the Federal Deposit Insurance Corporation shall be given equal representation with the Federal Reserve Board and the Office of the Comptroller of the Currency on the Committee on Banking Regulations and Supervisory Practices of the Group of Ten Countries and Switzerland.			Delete this provision as unnecessary.

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

PERSONAL AND CONFIDENTIAL

April 1, 1983

Dear Beryl,

I attach a copy of the paper that I have prepared for the meeting of the G-5 in Washington later this month.

Yours sincerely,

Larosière

J. de Larosière

Dr. Beryl W. Sprinkel
Under Secretary of the Treasury
U.S. Treasury
Room 3312
Washington, D.C. 20220

April 1, 1983

Note for G-5 Surveillance

We all agree on the importance of promoting a durable recovery, for which the consolidation of the gains achieved in the fight against inflation is a necessary condition. There are now clear signs of an upturn in the largest economies, although we do not know how strong nor, more important, how lasting it will be. The recent weakening of the international market for oil can be expected to strengthen this incipient recovery. Its implications for prices, incomes, and production in the oil importing countries are distinctly favorable. A 15 per cent decline in the price of crude oil, approximately what has taken place so far, could by itself reduce the price level in the oil importing countries as a group by more than 1 per cent in 1983. The magnitude of the associated stimulus to output is more uncertain, but the direction is clear.

In the present circumstances, it is essential to maintain the resolve to keep down inflation. The experiences of the 1970s suggest that a weakening of the commitment to enduring price stability could only erode the successes already achieved and endanger the recovery. In this note I review developments and policies in three interrelated areas since our last meeting, and discuss the conditions for a lasting recovery.

1. Cautious monetary policies have contributed substantially to lowering the rate of inflation. Since September 1982, inflation has decelerated sharply, particularly in the United States where the consumer price index has shown virtually no change over this period. The considerably lower inflation rates that have now been reached in Japan, Germany, and the United States and, to some extent, in the United Kingdom, are also

more uniform than at any time in recent history. France, by contrast, remains out of line with the other countries, although to a somewhat lesser extent than a year ago.

During the past six months, the main monetary aggregates in the United States and Germany have been allowed to grow at rates exceeding the upper ends of official target ranges. In the United States, interpretation of these movements is complicated by changes in financial structure and a rise in the propensity to hold monetary balances. The recent acceleration in monetary growth in Germany is largely related to exchange market intervention within the EMS. In Japan, the United Kingdom, and France, growth in the money aggregates has been held within target ranges and there has, in fact, been a tendency for these rates to decline in the most recent period. In the case of France, this is directly attributed to reserve losses, while for Japan exchange rate considerations have been relevant.

Interest rates have declined markedly in nominal terms, particularly at the short end of the market, but in most countries they remain high in real terms for this stage of the business cycle. In the United States, in particular, the high real rates reflect the large borrowing needs of the public sector. Long-term interest rates also seem to include a sizable risk premium incorporating expectations of a possible resurgence of inflation and concerns about the monetization of government debt. This suggests that the process of dampening inflationary expectations is not yet complete and that attempts to push down interest rates could be counterproductive.

Most major countries have announced growth ranges for the monetary aggregates in 1983 which are similar to or lower than those set for 1982. In the United States, the target ranges for M_1 and M_2 have been raised; however, the Federal Reserve has stressed that the new ranges are consistent with a slowdown in monetary expansion from 1982 to 1983, after adjusting for shifts in the demand for money. In view of the decline in inflation, the official monetary targets in the United States and Germany are consistent with the expected recovery in economic activity and there is no scope for a relaxation of monetary policy in these countries. Indeed, the recent rates of monetary growth in these two countries, unless brought back within the target ranges, would raise questions about their compatibility with enduring price stability.

In Japan, although inflation has fallen to a low level, there is no room for an easing of monetary policy as long as the exchange rate of the yen is not well established at an adequate level. The lowering of monetary targets in the United Kingdom, in line with medium-term objectives, does not imply a tightening of monetary conditions. Indeed, in view of the rapid decline in inflation, monetary expansion well within the target range would be adequate to accommodate the expected recovery. In France, given the balance of payments difficulties, greater restraint on domestic credit expansion is, in my view, required.

By persevering with steady monetary policies which avoid triggering a renewed inflationary impulse, the prospects not only for lower but also for more stable interest rates would be markedly improved.

2. This brings me to the second point. Public finances almost everywhere need to be strengthened. The large deficits that confront most

governments today reflect expenditure patterns established in previous periods of rapid economic growth. To these trends have been added the effects of the recession. In all countries public expenditures have become larger in relation to GNP although this reflects, in part, cyclical developments. This has been particularly evident in France, even on a cyclically adjusted basis, and in the United States. While the cyclical portion of the deficit will shrink with the recovery, fiscal policy changes are still required to ensure that structural deficits do decline. The time frame over which adjustment must be sought will depend, of course, on the particular circumstances of each country.

Concerns about the size of budget deficits stem from the demands they make on domestic savings and from their consequences for price and growth objectives. By contributing to the persistence of relatively high interest rates, they discourage productive capital formation without which the recovery is not sustainable. Although there is much unutilized productive capacity in most industrial countries, changes in economic structure and in comparative advantage will make some of it difficult to mobilize. New capital formation will then be needed to meet the recovery of demand and to avoid bottlenecks, particularly after the relatively prolonged period of low investment activity. An important medium-term objective for fiscal policy should be to make room for the volume of investment needed to support an adequate rate of growth. In considering alternative ways of reducing budget deficits, their impact on private savings must be taken into account. This argues for placing greater weight on expenditure reductions. In implementing these reductions, countries should consider the composition of expenditures, and the need to reduce the share of transfer payments.

Since we last met, efforts have been initiated to restrain or reduce budget deficits and the growth of public spending. These have found expression in the budgets for fiscal years beginning in 1983. In Japan, the budget aims at a reduction in both government expenditure and in the deficit in relation to GDP. However, in view of the constraints on monetary policy the government needs to demonstrate the same flexibility in implementing the budget as was evident last year. In Germany, as in Japan, fiscal restructuring is best pursued as a medium term process requiring a careful assessment of the short-term implications of a reduction in expenditures or an increase in taxes. In other countries, there is no alternative to renewed efforts to reduce government budget deficits, particularly through expenditure cuts. In France, this is especially necessary to restore external balance. Substantial success has already been achieved in the United Kingdom and the recently presented budget appears to provide the basis for further gradual consolidation in line with medium-term objectives.

Concerns about the size of the budget deficit are greatest for the United States, where deficits are large in relation to private savings and are likely to remain large even assuming implementation of the recent budget proposals. Most calculations suggest a substantial deficit will remain even as the economy returns to a high level of resource utilization. This highlights the need for urgent and decisive action by the authorities to reduce the structural fiscal deficit.

3. A revival of activity and world trade will be facilitated by exchange rate relationships that better reflect underlying economic conditions. Some movement in this direction has already taken place since we last met. The dollar has weakened somewhat against some of the main currencies especially the yen, and this should exert a favorable impact on the current account position of the United States. The yen's appreciation over this period has broadly restored its nominal effective exchange rate to the end-1981 level, but only partly offset the gains in competitiveness realized in recent years. The steep depreciation of sterling, partly related to oil market developments, has eased the competitive constraints on economic expansion in the United Kingdom. Finally, the recent EMS realignment has also resulted in a set of exchange rates more in line with relative economic and competitive strengths.

In the period ahead, countries must continue to strive for convergence in economic policies toward the achievement of sustained and non-inflationary growth. Such convergence is desirable in itself and also for the effect it would have on improving the prospects for reduced exchange rate volatility. Disruptive exchange rate movements have often resulted from shifts in policies and expectations regarding disparities in inflation rates. Already the lower and more uniform inflation rates in the largest economies provide an opportunity for greater exchange rate stability.

In the process of achieving greater stability in the medium term, increased cooperation between the major countries will be required. In conducting their financial policies, countries should seek to avoid effects on exchange rates that are clearly inconsistent with underlying economic conditions. In particular, countries should watch carefully the impact of their monetary policies, including the effects on interest rate differentials, and of their policies toward capital flows.

I have not, on this occasion, talked again about the need for specific actions to improve the functioning of markets, though these remain essential. In particular, structural unemployment is unlikely to shrink significantly unless the upward trend in labor costs is reversed and other disincentives to productive employment removed. I also continue to be seriously concerned by the spread of protectionism. Although a revival of activity and more realistic and stable exchange rates hopefully will ease protectionist pressures, an initiative by some of the major countries toward dismantling the barriers to trade that have recently been introduced or strengthened might be appropriate at this time.

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Dear Paul,

This is a draft of our invitation to the bankers for the Brazilian meeting on the 26th of September.

If you have any comments please call me today.

Sincerely

Jacques

With the Compliments of

Jacques de Larosière

Managing Director

Sept. 19. 83

DRAFT VERSION 2

BRAZIL MEETING: 9/26/83

VERSION FOR BANK CHIEF EXECUTIVE OFFICERS

AS YOU KNOW, WE HAVE JUST REACHED AGREEMENT AT STAFF AND MANAGEMENT LEVEL WITH THE AUTHORITIES OF BRAZIL ON THE REVISED STABILIZATION AND STRUCTURAL ADJUSTMENT PROGRAM. I CONSIDER IT OF GREAT IMPORTANCE TO BE ABLE TO PRESENT DIRECTLY TO YOU THE SUBSTANCE OF THE PROGRAM AS WELL AS THE MEDIUM-TERM PERSPECTIVE, TO DESCRIBE THE REQUIREMENTS FOR EXTERNAL FINANCE IN ORDER FOR THIS PROGRAM TO BE IMPLEMENTED SUCCESSFULLY, AND TO SEEK YOUR COOPERATION IN ASSURING THAT THESE RESOURCES ARE MADE AVAILABLE.

ACCORDINGLY, I SHOULD LIKE TO INVITE YOU TO JOIN ME IN A MEETING NEXT MONDAY, SEPTEMBER 26, 1983 AT 3:00 P.M. IN THE EXECUTIVE BOARD ROOM AT THE HEADQUARTERS OF THE INTERNATIONAL MONETARY FUND IN WASHINGTON. I AM INVITING THE CHAIRMEN/CHIEF EXECUTIVE OFFICERS OF THE OTHER ADVISORY GROUP BANKS TO ATTEND AS WELL AS THE FUND STAFF WHO HAVE BEEN NEGOTIATING THE PROGRAM. IN ADDITION, I anticipate ~~SECRETARY REGAN, CHAIRMAN VOLCKER, AND BIS PRESIDENT LEUTWILER~~ ARE BEING INVITED TO PARTICIPATE. IN ORDER TO FACILITATE DISCUSSIONS I BELIEVE IT WILL BE DESIRABLE TO LIMIT THE SIZE OF THE GATHERING AND ACCORDINGLY I AM INVITING PARTICIPANTS TO BRING NOT MORE THAN ONE COLLEAGUE TO THE MEETING.

I SHOULD BE VERY GRATEFUL IF YOU WOULD CONFIRM TO ME BY TELEX YOUR PARTICIPATION IN THE MEETING NEXT MONDAY.

CORDIALLY YOURS,

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Mr. Volcker

Here are 2 proposed amendments (after discussion with the banks) to my telex to the Mexican advisory group. I have sent this to Tim MacNamara. For reaction. Please tell me if you have a problem

sincerely

With the Compliments of

[signature]

Jacques de Larosière

Managing Director Dec. 3. 82

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WASHINGTON, D. C. 20431

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FOR RHODES, BENNETT AND MUDGE
C/O ALFRED MUDGE
SHEARMAN AND STERLING
CITICORP CENTER
153 EAST 53RD STREET, NEW YORK, NY 10022

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I WISH TO INFORM YOU ABOUT THE MEXICAN ECONOMIC PROGRAM, WHICH IS IN SUPPORT OF A REQUEST FOR A THREE-YEAR EXTENDED ARRANGEMENT FROM THE INTERNATIONAL MONETARY FUND, AND ON THE DISCUSSIONS HELD WITH MR. RHODES, MR. BENNETT, AND MR. MUDGE ON THE FINANCING REQUIREMENTS OF THAT PROGRAM FOR THE PERIOD THROUGH THE END OF 1983.

AS I EXPLAINED IN MY PRESENTATION TO THE ADVISORY GROUP AT THE FEDERAL RESERVE BANK OF NEW YORK ON NOVEMBER 16, THE MEXICAN PROGRAM CALLS FOR A MAJOR ADJUSTMENT OF THE PUBLIC FINANCES, WITH THE PUBLIC SECTOR DEFICIT SCHEDULED TO BE REDUCED FROM AN ESTIMATED SIXTEEN AND ONE HALF PER CENT OF GDP IN 1982 TO EIGHT AND ONE HALF PER CENT OF GDP IN 1983, FIVE AND ONE HALF PER CENT OF GDP IN 1984, AND THREE AND ONE HALF PER CENT OF GDP IN 1985. ON THIS BASIS, THE PROGRAM SHOULD MAKE POSSIBLE A LOWERING OF PRESSURES ON PRICES WHILE AT THE SAME TIME PERMITTING A REDUCTION IN THE RELIANCE ON EXTERNAL FINANCING, MAKING PROVISION FOR A REASONABLE VOLUME OF CREDIT TO THE PRIVATE SECTOR, AND

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ENSURING A REBUILDING OF FOREIGN RESERVES. THE CURRENT ACCOUNT DEFICIT OF THE BALANCE OF PAYMENTS IS EXPECTED TO COME DOWN FROM U.S. DOLLARS THIRTEEN BILLION IN 1981 TO U.S. DOLLARS SIX AND ONE HALF BILLION IN 1982 AND TO U.S. DOLLARS FOUR AND ONE QUARTER BILLION IN 1983, WITH FURTHER REDUCTIONS TO TAKE PLACE IN 1984 AND 1985. IN THE AREA OF MONETARY AND CREDIT POLICY, THE OPERATIONS OF THE BANK OF MEXICO WILL BE SUBJECT TO LIMITS CONSISTENT WITH THE ANTI-INFLATION AND BALANCE OF PAYMENTS AIMS OF THE PROGRAM, AND INTEREST RATES ARE EXPECTED TO PLAY THEIR CUSTOMARY ROLE IN ALLOCATING CREDIT AMONG COMPETING USERS AND IN PROMOTING FINANCIAL SAVINGS. EXCHANGE RATE POLICY WILL BE MANAGED FLEXIBLY OVER THE PROGRAM PERIOD, WITH A RESERVE TARGET BEING USED TO HELP GUIDE EXCHANGE RATE MANAGEMENT. WAGE POLICY WILL BE FORWARD LOOKING, AVOIDING INDEXATION TO PAST INFLATION, AND PRICE CONTROLS ARE TO BE MANAGED FLEXIBLY. AS PROGRESS IS MADE IN IMPLEMENTING THE PROGRAM, THE IMPORT PROTECTIVE SYSTEM WILL BE REVISED WITH

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A VIEW TO REDUCING THE SCOPE AND WEIGHT OF THE RESTRICTIONS THAT CURRENTLY APPLY TO EXTERNAL TRANSACTIONS.

IN REGARD TO MEXICO'S FINANCIAL NEEDS IN 1983, OUR PROJECTIONS ARE AS FOLLOWS: A CURRENT ACCOUNT DEFICIT OF U.S. DOLLARS FOUR AND ONE QUARTER BILLION, INCLUDING INTEREST PAYMENTS ABROAD OF SOME U.S. DOLLARS TWELVE BILLION; AN ENTRY OF PRIVATE CAPITAL (INCLUDING REINVESTED EARNINGS) OF SOME U.S. DOLLARS ONE BILLION; NONDEFERRABLE PUBLIC DEBT REPAYMENTS NETTED AGAINST CURRENTLY EXPECTED OFFICIAL CAPITAL INFLOWS RESULTING IN AN OUTFLOW OF SOME U.S. DOLLARS ONE BILLION; PROVISION FOR A MODEST IMPROVEMENT OF GROSS FOREIGN RESERVES OF THE ORDER OF U.S. DOLLARS ONE AND ONE HALF BILLION (WHICH WOULD PROVIDE ONLY A VERY THIN CUSHION, EQUIVALENT TO SOME TWO WEEKS OF CURRENT PAYMENTS); AND THE SCHEDULED REPAYMENT OF BALANCE OF PAYMENTS BRIDGING LOANS OF MORE THAN U.S. DOLLARS TWO AND ONE HALF BILLION. THESE PROJECTIONS INDICATE A TOTAL OF U.S. DOLLARS 8.3 BILLION THAT REMAINS TO BE FINANCED.

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DRAFT - Dec. 3/82

INSERT p.4

If you were to work on a basis of a smaller initial figure, for example, US dollar 4.5 billion, it would have to be clearly understood that the amount to be provided by the banks would have to be raised up to US dollar 5 billion if it should prove not possible to raise financing from official sources above US dollar 2 billion. I will keep you informed of my idscussions on the financing from official sources.

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THE FUND WOULD COVER U.S. DOLLARS 1.3 BILLION OF THIS TOTAL, LEAVING U.S. DOLLARS 7 BILLION TO BE FOUND. I HAVE SUGGESTED THAT U.S. DOLLARS 2 BILLION OF NET NEW MONEY COME FROM OFFICIAL SOURCES AND U.S. DOLLARS 5 BILLION FROM THE BANKS, TO BE DISBURSED IN PARALLEL WITH THE RELEASE OF FUND RESOURCES. ON THIS BASIS, BANKS' EXPOSURE TO MEXICO IN 1983 WOULD INCREASE BY AN ESTIMATED 8 PER CENT AS COMPARED TO 46 PER CENT IN 1981 AND 14 PER CENT ON AVERAGE IN THE THREE PRECEDING YEARS.

I HAVE INDICATED MY WILLINGNESS TO SEEK TO INCREASE SOMEWHAT THE PROPORTION OF FINANCING FROM OFFICIAL SOURCES FOR 1983, AND TO REDUCE PRO TANTO THE AMOUNT REQUESTED FROM THE BANKS, BUT I WOULD CAUTION THAT ANY SUCH SHIFT WOULD, AT MOST, BE QUITE SMALL, AND I HAVE NO INDICATION THAT IT IS IN FACT POSSIBLE. THUS, I THINK IT ADVISABLE TO WORK PROVISIONALLY ON THE BASIS OF U.S. DOLLAR 5 BILLION FROM THE BANKS IN 1983. (INSERT)

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IT IS MY UNDERSTANDING THAT THE PROBLEM OF MEXICAN PRIVATE INTEREST PAYMENTS TO FOREIGN BANKS THAT ARE IN ARREARS WILL NEED TO BE DEALT WITH TO PROVIDE THE BASIS FOR BANK LENDING TO MEXICO. I HAVE BEEN IN CONTACT WITH THE MEXICAN AUTHORITIES ON THIS MATTER, AND THEY HAVE ASSURED ME THAT THEY WILL BE WORKING TOWARD A RESOLUTION OF THIS PROBLEM. IT IS ALSO MY UNDERSTANDING THAT FOREIGN BANKS ARE READY TO ASSIST THE MEXICAN AUTHORITIES IN THE DEVELOPMENT OF THE FINANCIAL ARRANGEMENTS REQUIRED TO DEAL WITH INTEREST PAYMENTS IN ARREARS.

I WOULD ~~ADD~~ emphasize THAT THERE APPEAR TO BE OTHER ARREARS THAT and current resultant financial needs HAVE DEVELOPED IN RECENT MONTHS, PERHAPS OF AS MUCH AS U.S. DOLLARS ONE HALF BILLION OR MORE, AND IT ~~WOULD BE DESIRABLE~~ is necessary TO ASSURE THEIR ORDERLY FINANCING. ~~AS THESE OTHER ARREARS ARE QUANTIFIED,~~ THE ASSISTANCE OF THE BANKS in this connection appear ~~ALSO MAY PROVE~~ NECESSARY.

SINCE THE FINANCING REFERRED TO ABOVE FROM THE BANKS RELATES TO NET NEW MONEY, AGREEMENT ON SUCH FINANCING

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SEC 46 10-21-81

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I understand that you wish to have from me assurances by December 15 on financing from official sources.

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WOULD NEED TO BE ACCOMPANIED BY ARRANGEMENTS TO DEAL WITH THE SHORT-TERM AND MEDIUM- TO LONG-TERM DEBT OF MEXICO THAT WILL BE COMING DUE. THE RESTRUCTURING OF THE DEBT WOULD NEED TO BE ON REALISTIC TERMS, TAKING INTO ACCOUNT THE EXISTING DEBT REPAYMENT OBLIGATIONS AND BALANCE OF PAYMENTS PROSPECTS OF THE COUNTRY IN THE YEARS AFTER 1983. IN ADDITION, BANK DEPOSITS IN MEXICAN AGENCIES WILL HAVE TO BE MAINTAINED AT THEIR PRESENT LEVELS.

I WISH TO EMPHASIZE THAT I NEED BY DECEMBER 15, 1982 WRITTEN ASSURANCES FROM THE BANKS ABOUT THEIR PARTICIPATION, ALONG THE LINES INDICATED ABOVE, IN MEETING MEXICO'S FINANCING REQUIREMENTS, IN ORDER TO BE IN A POSITION TO GO TO THE EXECUTIVE BOARD OF THE FUND ON DECEMBER 23, 1982 WITH THE MEXICAN REQUEST FOR AN EXTENDED ARRANGEMENT. (NSERT)

I AM SURE YOU APPRECIATE THAT I CANNOT TAKE TO THE EXECUTIVE BOARD A PROGRAM THAT IS NOT FULLY FINANCED. THIS IS THE APPLICATION OF OUR NORMAL RULES AND PRACTICES.

I WISH TO ADD THAT I HAVE ALSO MADE THE ABOVE PRESENTATION

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TO THE ~~CENTRAL BANKS~~ MONETARY AUTHORITIES OF THE MAIN CREDITOR COUNTRIES AND HAVE ASKED THEM TO ~~SUPPORT~~ ENCOURAGE ACTIVELY THIS COOPERATIVE EFFORT WHICH IS CRUCIAL TO THE STABILITY OF THE INTERNATIONAL FINANCIAL SYSTEM. I HAVE DISCUSSED THE MODALITIES OF ASSURANCES FROM THE BANKS WITH MR. RHODES, MR. BENNETT, AND MR. MUDGE. IN VIEW OF THE SHORT TIME AVAILABLE, I STRESSED THE NEED FOR THE ADVISORY GROUP TO ISSUE TELEXES TO BANKS AT THE LATEST BY FRIDAY THE THIRD OF DECEMBER.

REGARDS

DE LAROSIERE

MANAGING DIRECTOR

INTERNATIONAL MONETARY FUND

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Larosière

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October 14, 1982 - 82/183

The Chairman's Summing Up at the Conclusion of the
Discussion on Sweden - Change in Exchange Rate
Executive Board Meeting 82/135
October 13, 1982

A number of Executive Directors referred to the 10 per cent devaluation of the krona in September 1981, which, it was calculated at that time, and so indicated in the Board, had restored competitiveness to its 1973 level. But they noted that since the fourth quarter of that year, there had been, on the basis of available indicators, a renewed erosion of competitiveness against partner countries amounting to some 4-5 per cent.

In view of the continued weakness in the current account and the speculative pressures in the exchange markets that had become apparent in September, the new Swedish Government had implemented an exchange rate devaluation. Most Executive Directors noted that the available indicators showed that there was a case for a devaluation by Sweden, but on the evidence in front of them, they found no ground for concluding that a devaluation of the size introduced, i.e., 16 per cent, was justified. The view was expressed that the magnitude of the devaluation could, and had, given rise to undue problems for partner countries, and strong concern was expressed on the possible dangers of consequent reactions in such a very delicate domain.

It was noted that in the recently announced package several measures aimed at promoting a more viable industrial structure and medium-term growth had been decided on, but a number of Directors wondered whether the measures, especially in the fiscal and monetary fields, were sufficiently supportive of the devaluation and some doubts were expressed on the adequacy of some of the measures decided on. Directors emphasized the importance of taking the available opportunity to abolish subsidies to ailing industries.

Many Directors asked that the exchange rate policies of Sweden and the supporting measures that were being introduced should be the subject of further special consultation between the staff and the Swedish authorities in the near future, so that Directors could shortly have an opportunity for a further discussion of those matters on the basis of a comprehensive analysis of the situation. I shall, therefore, contact the Swedish authorities to see how such consultations can be conducted.

INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

Mr. Paul Volcker, Chairman, Federal Reserve Board

Mr. Robert McNamar, Deputy Secretary of Treasury

For your information, I attach the text of my preliminary communication to the President of the Central Bank of Argentina.

With the Compliments of

Jacques de Larosière

Managing Director

Señor Julio Gonzalez del Solar
President
Central Bank of the Argentine Republic
Buenos Aires, Argentina

The Management of the Fund has agreed with the framework and objectives of the economic program of the Argentine Government discussed with the recent Fund mission in Buenos Aires in connection with a request for a stand-by arrangement by the Argentine Government. Within this framework and objectives, there remain certain issues related to the implementation of a wage formula and of an interest rate policy consistent with the objectives of such a program. We expect that during the course of the next week consultations will be held in Washington with representatives of the Argentine Government and of the Fund with a view to reaching final agreement on these two issues. On this basis and once the Argentine Government implements other agreed measures necessary for the initiation of the program as from January 1, 1983, Management will be prepared to support the requested stand-by arrangement and submit it to the consideration of the Executive Directors.

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Paul A. Volcker

The attached memorandum was sent to Secretary George Shultz on October 6, 1982.

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BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
DIVISION OF INTERNATIONAL FINANCE

DATE 9/17/82

TO Chairman Volcker

FROM TED TRUMAN EMT

Attached for your information and reaction is a copy of the current draft outline of the suggested new IMF borrowing arrangement.

Attachment

cc: Governor Wallich
Messrs. Axilrod, Siegman, Gemmill, Promisel, Pizer, Leimone, Dod, Cross and Ms. Brown

UNCLASSIFIED
CONFIDENTIAL ATTACHMENT

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Citations: Confidential: Discussion Outline of Provisions of New IMF Borrowing Arrangement, September 16, 1982.

INTERNATIONAL MONETARY FUND
WASHINGTON D C 20431

EXECUTIVE DIRECTOR
United States

May 5, 1982

CABLE ADDRESS
INTERFUND

To: Secretary Regan
Chairman Volcker

Thru: Beryl Sprinkel (Initialed) BWS

From: Richard D. Erb RDE.

Subject: IMF Conditionality and the Financial Role and Size of the Fund

This memorandum provides a status report on the areas of conditionality we have concentrated on during the past year, the progress made to date, the areas that need further improvement, and the areas which raise some important policy questions. As discussed in the final section of this report, issues relating to conditionality are also central to views on the financial role and size of the Fund, subjects which are at the heart of the Eighth Quota Review.

To serve as a starting point, the following section outlines the conditionality guidelines which shape our judgments on individual programs. These guidelines, which are grounded in the IMF Articles of Agreement, also shape our views on the financial role of the Fund.

IMF CONDITIONALITY GUIDELINES

The following guidelines provide a general framework for our evaluations of individual IMF financial arrangements:

I. There should exist a demonstrable balance of payments need. This means that a country should have made a significant effort to obtain alternative financing including, where appropriate, development assistance financing. This does not mean however that a country must exhaust its reserves or alternative sources of financing before being eligible to utilize IMF financial resources.

II. The borrowing member should implement policy measures consistent with a sustainable balance of payments position by the end or shortly after the conclusion of the planned financial arrangement(s) with the Fund. A sustainable balance of payments means a current account (including normal fluctuations) that can be financed over time with commercial and/or development assistance financial flows. This does not mean that a current account balance is necessary or that there is some general current account norm applicable to all countries or groups of countries. In practice, the ability of a country to sustain a current account deficit (i.e. remain a net borrower of foreign resources) and the magnitude of that deficit will depend on how effectively the country's economy is allocating resources to productive uses.

III. The adjustment measures adopted must be in accord with the broader principles of the IMF Articles. In short, this means policies which are consistent with promoting domestic economic growth and a more open market-oriented international economic system.

IV. To establish adequate safeguards for the temporary use of its resources the Fund must assure itself that a member using Fund resources will be in a strong enough financial position to repay the Fund without incurring arrears in its other obligations and without being forced to adopt measures inimicable to the broader principles of the IMF Articles.

Given these general guidelines, our approach to each borrowing arrangement is empirical and analytical. Since economies differ, it is not presumed that some fixed set of policy measures is automatically necessary or appropriate in each country faced with a balance of payments adjustment problem. Although we have to depend on the Fund staff for the data, analysis, and judgments regarding the policies necessary within each country to achieve the balance of payments adjustment objective, the Fund staff needs general guidelines from the management and the Executive Board on how to approach Fund financial arrangements with member countries.

POLICY MEASURES REQUIRED IN FUND PROGRAMS

Because there had been a serious erosion in the adjustment measures required by the Fund, we have been giving primary emphasis to strengthening this dimension of IMF conditionality. Other member countries including some developing countries and the IMF management had come to a similar judgment by early 1981. As a consequence, and as outlined below, considerable improvements have been made. At the same time, there are areas in which differences in view and approach remain.

(i) The adjustment objective: Fund programs had deteriorated in part because of a tendency to specify a number of adjustment objectives without giving priorities. Thus, performance became difficult to monitor since it became too easy to find some objective that was being met. More importantly, by accepting many adjustment objectives--however laudable each objective might have been--Fund financial arrangements gave insufficient emphasis to economic policy changes that would lead to a sustainable balance of payments position within a short to medium term period.

Although more emphasis is being given by the Fund staff to the balance of payments adjustment objective, the objectives adopted under Fund programs remain too diffuse. This is a controversial issue. Other members of the Board and many outside critics of the Fund believe the use of multiple objectives is a favorable development. In their view, if an economy is faced with the need to make a number of economic adjustments, each of which may be desirable per se, the Fund should be more relaxed about what specific adjustments are achieved as long as a country is accomplishing some adjustment. In addition it is argued that such an approach reduces the prospects of later balance of payments problems.

Although broadly defined adjustment objectives can be justified, such an approach has significant implications for the Fund. The more broadly one defines the adjustment objectives of Fund financing, the broader the scope of Fund lending and the larger the Fund's financial resource requirements. Since this issue also is central to differences over the financial role and size of the Fund, I will return to it later.

(ii) Policy commitments: Fund programs also had weakened because there was a tendency for the Fund to accept a government's promises to "find" appropriate policy measures in lieu of requiring a government to be specific regarding the policies to be adopted. In particular, this was a problem with three year Extended Fund Facility (EFF) programs and with multi-year stand-by programs. Partly in response to this problem, the Fund has been negotiating fewer programs involving explicit multi-year commitments. Instead, the Fund will make an explicit commitment for a one-year program that is framed in a multi-year context. In such cases, there is an understanding that a series of one year programs is possible but only if the country continues to adjust as planned. In the remaining multi-year programs, the Fund is phasing potential drawings and reviews in a manner that gives it more leverage.

(iii) Policy implementation: Another area of weakness in Fund programs stemmed from the tendency of some borrowing countries not to implement agreed policy measures. There has been considerable improvement in this regard:

- prior actions: The Fund management has returned to the practice that requires a country to take a number of policy actions prior to presenting a program to the Executive Board, especially in countries which failed to implement agreed policies under past programs;

- better monitoring systems: In a number of programs, the Fund has established systems for monitoring government economic policies on a more timely basis;

- more frequent reviews: Even in one year programs, more frequent performance reviews during the program period now are required in order to insure that agreed policies are being implemented;

- better phasing of drawings: Instead of front-end-loading potential drawings, the Fund is phasing drawings so as to link drawings with implementation;

- limited waivers and modifications: If a country does not meet its policy targets, the Fund is willing to grant waivers and modifications only when conditions justify relatively minor program adjustments; when more significant adjustments are necessary, the Fund requires a new negotiation;

- more technical assistance: In some countries, failure to implement agreed policies was caused by management deficiencies The Fund has been providing more technical assistance in such cases. (This is an activity of the Fund that we have been strongly encouraging.)

BALANCE OF PAYMENTS NEED TEST

According to the Articles of Agreement, a member using Fund resources must have a balance of payments "need." As traditionally interpreted by the Fund, and as we continue to interpret the concept, this means that a country should have made a significant effort to obtain alternative financing, including, where appropriate, development assistance financing. Under this view, a Fund program is important to a country not so much because of the financial resources that are made available directly by the Fund, but because a Fund program gives confidence to other sources of finance. To the extent that a Fund program in fact serves as a catalyst for other financial sources, the need to actually draw from the Fund is thus reduced or eliminated.

During the latter half of the seventies, the Fund's approach to lending was significantly modified. In short, there emerged a view that the Fund should be able to provide a critical mass of resources to induce countries to use IMF financial resources early on and thus enable the Fund to promote economic adjustment broadly defined (this issue is thus related to the discussion of objectives in the previous section). This philosophy was articulated in the 1978 Report of the Executive Board to the Board of Governors on the Seventh General Review of Quotas: "The Fund provides its members with balance of payments financing on the understanding that these members will follow appropriate policies of economic adjustment. In these circumstances, members' access to the Fund's resources must be sufficiently large to induce members with substantial balance of payments need to use those resources and to pursue economic policies and programs which the Fund is able to support."

In a 1979 revision of the Fund's guidelines on conditionality, the Executive Board established what has come to be known as its policy of "early access." According to this policy, "members should be encouraged to adopt corrective measures, which could be supported by use of the Fund's general resources in accordance with the Fund's policies, at an early stage of their balance of payments difficulties. Although the word "could" implies uncertainty, in practice the promise of significant

Fund resources became the carrot used to induce members to borrow from the Fund. In 1980, and consistent with the notion that a critical mass of financing was needed to induce members to borrow, the Executive Board adopted a policy of "enlarged access." This policy allows the Fund "to provide balance of payments assistance to members facing serious payments imbalances that are large in relation to their quotas." Currently this means amounts up to 150% a year and 45^% over a three year period under the credit tranches or under an Extended Fund Facility (EFF) program. Over time, use of Fund resources (net of repayments) under those facilities may cumulate to 600% of quota. Prior to the adoption of expanded access, a member country could draw up to a maximum of 100% of quota under the credit tranches or 165% under the EFF.

The shift in the philosophy underlying Fund lending activities in the late seventies was motivated by a number of factors. In the past some countries delayed seeking Fund assistance until their balance of payments situation was so severe that draconian adjustment measures were then necessary. When the Fund finally became involved in such cases, the Fund too often was blamed for the policy adjustments that were required. In addition, there emerged a belief that by dealing with a country's economic problems early on, balance of payments problems could be avoided. During the period from 1977 to early 1979, when few countries borrowed from the Fund, many also argued that Fund conditionality was too tough. The most severe critics of Fund conditionality were the developing countries and their representatives and advocates. In 1979 the re-emergence of a large OPEC surplus fed the preception that a more active financial role for the Fund was necessary. Among the supporters of this shift in philosophy was the U.S. government.

Although the policy changes of the late seventies were motivated in part by laudable objectives, they open the door for a high level of Fund lending if not carefully constrained. In practice, efforts to induce countries to seek IMF financing early on can stretch the balance of payments need test and weaken the adjustments called for under Fund programs. The emphasis on encouraging countries to use Fund resources also leads countries negotiating with the Fund to expect the full amounts permitted under enlarged access. In addition, once a program is approved, countries expect to use the full amount provided rather than treating Fund resources as stand-by resources that could be drawn if unforseen developments have a detrimental impact on the country's balance of payments position. (Note: In the past, there was a greater tendency for countries to use Fund resources on a truly stand-by basis.)

In part, the surge in IMF lending in 1980 and 1981 was propelled by too loose an application of the policies of early access and expanded access (this was a major problem with the India loan). Although we have not called for a revision of these policies, we have sought to constrain them:

(i) Regarding early access

- we have stated that member countries have a responsibility to work with the Fund under the Fund's surveillance procedures in order to identify and undertake adjustment measures and thus avoid balance of payments difficulties

- we also have stated that if a country seeks access to Fund resources in an early stage of an emerging balance of payments problem, it should do so on a true stand-by basis and not treat IMF financial resources as simply another (less expensive) means of financing a balance of payments deficit

- we have said that if a member seeks access to Fund resources at an early stage, it should not be granted enlarged access amounts

(ii) Regarding expanded access

- we have stated that the limits allowed under expanded access should be treated as ceilings and not targets

- we have also stated that the ceilings (150%; 450%, 600%) could be reduced over time if balance of payments deficits and surpluses declined or became more evenly distributed

Regarding the latter efforts to constrain the policies of early access and enlarged access, we have had success in getting agreement that the limits under expanded access are not targets but mixed support and some opposition on the other approaches. However, because of a desire to concentrate on the adjustment measures required in Fund programs, we have not pressed these issues too hard. In my judgment, and as discussed below, these are issues that we can deal with in the context of the Eighth Quota Review negotiations.

ESTABLISHING ADEQUATE SAFEGUARDS FOR THE TEMPORARY USE OF ITS RESOURCES (Guideline IV).

In my judgment this is an aspect of IMF conditionality that deserves more attention, especially if Fund lending were to continue to grow rapidly. The Fund has resources committed in some countries with balance of payments adjustments so severe that they are not able or are unlikely to be able to repurchase from the Fund within the normal short to medium terms repurchase period. In effect, the Fund may find itself in some situations (like Sudan) where it must provide a new loan in order to be repaid. To a large extent, the potential for such situations arise primarily in low income countries which depend on development assistance to finance their current account deficits. Although such countries can usually meet even a strict test of balance of payments need, the adjustment problems confronting such countries are of a nature requiring long term development assistance and not of a temporary character suitable for IMF financing. In addition, there is a danger that the Fund will be caught up in the game-theory type behavior such countries engage in in order to maximize aid flows and debt rescheduling. (Examples of such behavior include pursuing policies which result in a perpetual balance of payments crisis as part of the bargaining process with creditors and donor countries.)

I should note that the industrial countries, including the United States, have been requiring such countries to obtain an IMF program in order to qualify for debt rescheduling and bilateral assistance. Thus, the Fund has been under more than a little pressure in recent years to come up with financial programs--including expanded access--for such countries. In turn, bilateral development agencies have come to view IMF financial resources as another means for reducing the balance of payments gap that must be filled with development assistance. Although the Fund plays a positive role in such countries, I am concerned about the long run financial consequences for the Fund. This is another subject area for further thinking within the U.S. government.

CONDITIONALITY AND THE EIGHTH QUOTA REVIEW

The Executive Board has had a number of discussions on the appropriate magnitude of the Eighth Quota increase. Those who favor a large increase in Fund quotas (100 to 200 percent) generally support the direction in which Fund lending policies have moved in recent years. In short, they believe that the Fund should have sufficient financial resources in order to induce borrowing countries to promote economic adjustment broadly defined. While they expect the Fund to demand economic adjustments as a condition for using Fund resources (many in this group criticized 1977-80 Fund lending for being too lax), they believe that such adjustments may require larger Fund resources and longer Fund programs. They would also favor a continuation of enlarged access (although with lower percentage ceilings since the quota levels would be higher) and a continued policy of early access to the use of Fund resources.

In Board discussions, I have not specified any numbers, but have indicated that some of the increases being discussed were unrealistic and implied a much broader and more active financial role for the Fund. In addition, my statements regarding the financial role of the Fund have clearly emphasized the more traditional financial role of the Fund as a source of temporary balance of payments financing for countries faced with a balance of payments need and willing to undertake economic adjustments designed to achieve a sustainable balance of payments position within the short to medium run.

During the next few months we will continue to work within the International Monetary Group (IMG) to develop our positions on issues connected with the Eighth Quota Review.

cc: Leland
Ted ...

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

PERSONAL AND CONFIDENTIAL

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

August 18, 1982

Dear Beryl,

I attach a copy of the paper that I have prepared for the Toronto meeting of the G-5.

Yours sincerely,

Jacques

J. de Larosière

Mr. Beryl W. Sprinkel
Under Secretary
U.S. Treasury
Room 3312
Washington, D.C. 20220

CONFIDENTIAL

Our goal is clear: the re-establishment of a noninflationary environment conducive to sustained growth of output and employment. Its attainment has become all the more urgent in view of the weakness of world demand, record levels of unemployment, and growing protectionist tendencies. Until it is reached greater exchange rate stability will be difficult to achieve. To best achieve our goal policy actions in each of the G-5 must be consistent not only with each country's particular objectives but also with the common goals of the G-5. From an international point of view, it is essential that the efforts of individual countries are reinforcing and not conflicting. Policies need to be kept on a steady course to carry conviction to markets.

This note sets out some thoughts centered around three inter-related questions: (1) the policies necessary to achieve a continuing deceleration of inflation and the extent to which inflation rates in individual countries have converged and are converging; (2) the problems stemming from an inadequate containment of government deficits with resulting consequences for financial markets; and (3) the actions that could improve the flexibility of economies including a reduction in the size of public sectors and more rapid cost and price adjustment.

1. On the first point, a continuing decline in inflation inescapably depends in large part on pursuit of cautious monetary policies. Restraint characterizes monetary policies, at present, though the movement of the aggregates is difficult to interpret during a period of transition. There are, however, apparent differences in the willingness of countries to pursue a policy of reducing inflation and there are differences between countries in the costs that must be borne in order to achieve a significant success. A reduction in inflation has been achieved though to substantially differing degrees in each country. However, convergence on an acceptable range of price increase is not yet in prospect with consumer prices in France continuing to rise, until the imposition of the freeze, at an annual rate of 14 per cent, whereas at the same time they had decelerated to a rate of 2 1/2 per cent in Japan. In my view it would be acceptable if price increases for individual members of the G-5 were to settle within a range of, say, 3-5 per cent provided they remained there.

It would seem that currently French price performance is most noticeably out of line and without a substantial shift of policies it is doubtful whether this will be much changed during the next two years. In the United Kingdom wage restraint will have to be pursued even more vigorously if the deceleration of prices that has been achieved thus far is not to come to an end. The fight against inflation was begun from an unfavorable starting point in both the United Kingdom and France, and in both countries a reduction in inflation to an acceptable level in the short- to medium-term appears much more uncertain than in Germany or than in the United States, where marked progress has been made. The achievement of the Japanese authorities in this area stands on its own.

The reduction of inflation in the major countries has been associated with a period of considerable economic slack, however, and we cannot yet be confident about the durability of the progress made. I would strongly counsel against a relaxation of policies.

2. This brings me to the second issue. Might different policies accelerate the adjustment process? I have in mind particularly the need to move toward substantially smaller government deficits, and with them, reduced pressures on financial markets. A weakening fiscal position, even if associated with slack in activity, cannot be tolerated when as a result the public sector pre-empts an undue proportion of savings and thus undermines an expected recovery. High rates of growth of public debt have contributed to levels of interest rates which inhibit productive investment and harm the prospects for further growth; unless restrictive monetary policy is supported by measures to curb deficits, interest payments on a steadily rising public debt may lead to a situation where government deficits threaten to get out of control. The present state of public finances is in part reflected in the historically large gap which has developed between interest rates and the ongoing rate of inflation. These pressures from budgetary imbalances are contributing to the financial difficulties of companies. They also have adverse implications for the international financial system by affecting the availability of credit and its cost to other countries. All of this argues for moving quickly and effectively to deal with the problem of budget deficits. Only in Japan has adjustment gone so far that it could allow the adoption of a somewhat different stance of fiscal policy in the short term. But a fall in Japanese interest rates is constrained by high rates of interest abroad and thus by the potential effect on the exchange rate. The current weakness of the yen is now feeding protectionist tendencies.

The budget deficit problem and the pressures generated on financial markets are not unique to any one country, and they may be muted to some extent by the continuing weakness of domestic demand. However, most countries feel that, on an individual basis, action on their part to reduce deficits might do little to improve world financial conditions. This underscores the need both for generalized action in this area, and especially for action by the United States which is the dominant economy, if financial resources are to be made available to the private sector to facilitate the needed strengthening in investment in the medium term.

It may well be that the high fiscal deficit in the United States is not the only cause of interest rate pressures in that country, and some argue that in the present state of low capacity utilization the "crowding out" problem is not that acute; but it remains true that there is a pervasive belief in the U.S. markets that, barring a substantial fiscal effort, the Federal deficit will remain high over the medium term, even should there be a considerable economic recovery. This belief, in turn, feeds inflationary expectations and undermines confidence in the authorities' determination to pursue an anti-inflationary policy. The level of interest rates is clearly influenced by the strength of demand for credit but the danger is that, even if a weakness in private demand for credit fosters a fall in interest rates in the near term, there could be a threat that they may surge again, choking off an upswing in activity, if the government demand for credit were to remain high. I recognize that measures to bring about a substantial reduction of the U.S. fiscal deficit could lead to some decline in economic activity in the short run. Unless significant action is taken to reduce the borrowing needs of the U.S. Government, however, the chances of improving economic conditions over the medium term will be diminished.

But two further points must be stressed in this connection. Firstly, a reduction of the U.S. fiscal deficit would only have its desired international impact if other countries did not take advantage of it to relax their own fiscal stances. I assume that this will not occur. As I mentioned earlier, the reduction of the deficit financing is a task for most governments. Secondly, a reduction in U.S. interest rates should not necessarily entail a pari passu fall in the interest rates of the other members of the G-5. The degree to which interest rates in those countries can fall depends essentially on domestic conditions.

3. The third issue is the need to increase the flexibility of economies to adjust to changes in circumstances, and thus to speed the recovery in economic activity. Sharp increases in public sector expenditures--considerably in excess of those due to cyclical weakness--have been a feature over the last decade in each of the G-5. Further, the absolute size of the public sector--particularly in the three European members--is a cause of concern in itself. In my view, these developments have reduced the flexibility of economies to adjust by distorting relative factor costs and by reducing the resources available to the productive sector. They have also had adverse consequences for growth and employment in the medium term. I believe that in each of the G-5, but particularly in the European countries, there remains a need to dampen the all too apparent dynamics of public expenditure growth, especially in the social security field. I am aware that it is extremely difficult to do this at a time of pronounced weakness in economic activity but I do not think there is any escape from the conclusion that I have drawn.

The need to finance rising public expenditures has posed pressures on the financial resources of companies at a time when profits have already been compressed partly on account of weak demand but also because of an excessive increase in labor costs over a long period. The most evident expressions of this difficulty are the low rates of return on corporate capital and the surge in bankruptcies. This problem is compounded by institutional arrangements, particularly indexation, which reduce the flexibility of real wages. The level of real wages remains a central problem. Unless the financial burdens imposed by the public sector can be contained and moderate wage settlements secured, the investment on which sustainable noninflationary growth and a reduction in unemployment must depend, will not be forthcoming. It is fashionable to assert that the pressures for government financial assistance to weak industries and the pressures for protectionism have been reasonably resisted. Personally, I suspect that this is significantly less than the whole truth and I am perturbed at what I perceive to be a growing tendency to give in to such pressures. Such action flies in the face of adjustment requirements.

In conclusion I would stress that:

(1) the continuing divergencies in economic performance between the G-5 are such that one cannot yet see diminishing pressures on exchange markets. It is essential that greater progress be made in France and the United Kingdom. The United States must continue to pursue a cautious monetary policy;

(2) these policy recommendations will not of themselves lead to the revival of high levels of employment and activity. But reduced government demand for world savings can contribute to an improvement in the financial position of enterprises which is one precondition for renewed investment activity; and

(3) we must have in mind developments in the rest of the world and the implications of the policies of the G-5 on these developments. Conditions are extremely difficult. The problems are certainly not only external in origin but they have been compounded by slow growth and high interest rates in the G-5. At the present time there are risks for the stability of these countries and of the international banking system. If growth in the G-5 were to continue to prove elusive and interest rates were to remain high, these dangers would be heightened. This is a separate subject but one which I think must be discussed soon.

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXECUTIVE DIRECTOR
United States

April 7, 1982

CABLE ADDRESS
INTERFUND

To: Paul Volcker

From: Richard D. Erb RDE

Subject: World Economic Outlook - Main Issues

Although your staff has received the attached paper, I want to bring it directly to your attention since I think you will find it useful and interesting. The paper was prepared in conjunction with the IMF World Economic Outlook exercise. The latter will result in a published document to be issued in May. The attached paper, which will not be published and is classified confidential, will serve as the basis for an IMF Executive Board discussion on April 19 and the Helsinki Interim Committee discussion of the economic policy issues involving the major industrial countries. Since the paper focuses on the big seven, it may also serve as a useful background for the summit process. Although you may not agree with all of the staff's analysis and conclusions, I think you will find the paper quite valuable in that it examines the economic linkages and policy issues among the major industrial countries in a comprehensive, systematic and analytical manner.

In preparation for the April 19 Board discussion I will be seeking guidance from your staff on how I should approach the discussion. The attached paper and the outcome of the Board discussion will then be used when planning Secretary Regan's approach to the May Interim Committee discussion of economic policy issues.

Attachment

FOR AGENDA

ID/82/1
CORR.-1, 4-1-82

CONFIDENTIAL

March 29, 1982

To: Members of the Executive Board

From: The Secretary

Subject: World Economic Outlook - Main Issues

The attached paper dealing with the main issues of the World Economic Outlook has been scheduled for Executive Board discussion on Monday, April 19, 1982.

As with previous papers on the world economic outlook, this document is being given limited distribution.

Att: (1)

CONFIDENTIAL

March 29, 1982

World Economic Outlook--Main Issues 1/

The purpose of this paper is to set forth several topics to which, it is suggested, Executive Directors should address themselves in the forthcoming discussion of the World Economic Outlook.

--The first topic covers policies in the major industrial countries. The Managing Director has proposed that Executive Directors should make a single intervention on this topic, and that the discussion of it should occupy the first day, April 19.

--As will be seen, three other topics are presented in this paper. These relate to the global economic setting, the situation of developing countries, and the role of international cooperation. Executive Directors would be expected to make a second intervention on April 21, discussing any or all of these three topics.

--The conclusion of the WEO discussion, including the Managing Director's summing up, is scheduled for the morning of April 22.

In outlining these four topics, and suggesting materials that might form a basis for discussing them, this paper frequently draws on specified sections of the draft report on the World Economic Outlook that is scheduled for publication in May, and that is being circulated separately to Directors. But in connection with the first topic, as explained below, it has been necessary to prepare some special material, which constitutes most of the present paper.

The paper also contains a statistical appendix. This consists of a selection of key tables from among the approximately 60 tables to be included in the published WEO report, but which are not yet ready in their entirety for circulation to Directors.

I. Policies of the Major Industrial Countries

1. Conduct of national economic policies to combat "stagflation"

As a principal basis for the discussion of this topic, Executive Directors are referred to two sections of Chapter II ("General Survey") of the draft WEO report for publication. One is the industrial-country part of the section on "Key Issues of Policy". In addition, as will be seen, parts of the section on "Medium-Term Scenarios" are also relevant in this context. In essence, these materials represent a reconsideration,

1/ Prepared by the Research Department in collaboration with the Area Departments, as well as the Exchange and Trade Relations and Fiscal Affairs Departments.

and an elaboration, of the multipronged or integrated type of medium-term policy approach that was briefly described in the Fund's 1981 Annual Report (page 37) and endorsed by the Interim Committee at its late September meeting.

2. Interaction of policies and developments among the major industrial countries

In the preceding topic (I-1), the concern was with key issues involved in the general conduct of national economic policies by the major industrial countries. Now, attention is turned more specifically to policies and developments on an individual country basis, and the principal focus is on the interactions among them.

The "country notes" for the major industrial countries provided in Appendix A-1 of the draft publication on the World Economic Outlook may prove useful to Executive Directors by way of background information for discussing the subject of "interactions". In large degree, however, the issues that fall under this subject are too sensitive for treatment in a publication, and the main basis for discussion of it is provided in a specially-prepared series of notes and comments--actually, an annotated agenda--that follows immediately.

The main purpose here is to provide the basis for a Board discussion that might contribute to a better understanding of the international aspects of policies and conditions prevailing in the major industrial countries. In order to promote that discussion, the staff advances many analytic judgments; these often relate to matters that are both complex and controversial, and in some cases may have been put too cryptically in the interest of brevity. At any rate, it must be stressed that identification of instances in which policy aims or actions of one or more countries seem to clash (or harmonize) with those of other countries is not intended to assign blame (or credit) for that result, but only to throw light on its causes--and thereby to provide the essential framework for a Board discussion that falls within the compass of the Fund's responsibility for surveillance over members' exchange rate policies.

The annotated agenda that follows is divided into three parts. First, there is a section on the United States, which assesses the stance of demand management policies in that country and discusses the question of why U.S. interest rates have become so high, as well as the general effects of fluctuations in U.S. interest rates and exchange rates. The second section focuses on the other major industrial countries individually, with the purpose of judging both the impact of U.S. policies on them and the extent to which their own policies may have been destabilizing in an international context. The third section draws some conclusions, pointed toward the general question of how international differences in policy stance and viewpoint might be reconciled or narrowed.

a. United States

In light of the WEO-report draft sections on "Key Issues of Policy" and "Medium-Term Scenarios," it should come as no surprise that the staff attaches great importance to the U.S. objective of achieving a reduction of inflation and inflationary expectations.

To this end, there is no question that monetary policy in the United States must stay on the track that has been established by the Federal Reserve in order to avoid any setback in the anti-inflation effort. To be sure, in the period of transition to a reduced rate of inflation, pursuit of a tight monetary policy almost certainly implies a continuation of relatively high interest rates, and this is likely to result in sluggish growth of output and employment for some time. Such a result--already evident in developments over the past two years--may be viewed in part as a legacy of past policies that led to the spread and entrenchment of inflationary behavior among individuals, firms, and governments. Although recently there have been encouraging signs of a turnaround in inflation, the gains achieved in this area need to be consolidated through continuing policies of demand restraint. An upward adjustment of the growth paths of the monetary aggregates would provoke a worsening of expectations about inflation that could thwart the positive effects on output sought from a relaxation of monetary policy. The experience of the past two decades, when policy in general was eased substantially in recessions and inflationary pressures were soon reignited, demonstrates the importance of avoiding a premature reversal of policy.

The main issue that arises about U.S. policies has to do with the stance of fiscal policy. It is generally recognized that the United States is confronting a serious fiscal problem, with the federal deficit on a cyclically adjusted basis being projected to increase this year and the next. Large and persistent deficits affect the credibility of monetary policy and cast doubts on the Government's commitment to bring down inflation. The needed adjustment of inflationary expectations is very likely to be delayed, thereby raising the cost of moving toward a non-inflationary economy. Moreover, financing of large deficits means that resources are absorbed that otherwise would be available for private capital formation, thus making it more difficult to achieve sustained growth in the medium to longer run.

For all these reasons, it is of the utmost importance for the United States to take remedial action on the fiscal front. In order to avoid adverse effects on saving and investment, the emphasis of corrective measures should be on the containment of government spending. However, action on the side of revenue may well be necessary. In this regard, there would seem to be scope for reducing tax expenditures and raising revenue in other ways without damaging incentives to work, save, and invest. A point worth making is that a shift of fiscal policy toward restraint might result in a more sluggish economy for a while, at least until inflationary expectations become adjusted, but the objective of such a shift would be to bring about a fundamental improvement in the conditions for sustained growth.

The change in the policy mix of the United States that would result from a tightening of fiscal policy, while monetary policy remained unchanged, would tend to lower (nominal and real) interest rates. Although there seems to be little question about the direction of the response of interest rates to such a change in the policy mix, the size of the effects cannot be quantified with any confidence. It may be noted that there is an international dimension to the level of the real rate of interest, as this would seem to be influenced by developments in the saving-investment balance on a worldwide scale. Of course, there are many factors affecting this balance, including fiscal positions throughout the world.

There are questions about how a decline in U.S. interest rates stemming from a tighter fiscal policy would affect the exchange rate for the U.S. dollar. The initial direct impact of such a decline in U.S. interest rates (not accompanied by a corresponding move in other countries) would tend to lower the external value of the U.S. dollar, since it would induce a shift in the composition of investors' portfolios away from U.S. dollar assets. Such capital flows (and the attendant downward pressure on the U.S. dollar) would largely cease once investors had achieved the desired portfolio reallocation; the flows might even be reversed if exchange rate expectations were affected by the prospective improvement in the relative cost-price situation of the United States resulting from the shift toward a more restrictive fiscal policy. The tightening of fiscal policy also would result in an initial improvement in the current account, which in itself would tend to raise the external value of the U.S. dollar. On balance, it would seem that these influences arising from a shift toward fiscal restraint would not have a significant lasting effect on the exchange rate. On a different plane, improvement of the fiscal position would increase confidence in U.S. economic management and reduce uncertainty in general, and could have some independent influence on the U.S. dollar.

Following these comments on the stance of demand management policies, attention is now turned to the question of why U.S. interest rates are so high at present. This invites the further question of whether the situation of high interest rates is likely to last for a prolonged period of time.

The high interest rates that currently prevail in the United States are in large part attributable to the high inflation that has been experienced for some time and that apparently is still being expected by the general public. Although price indicators suggest that inflation recently has been moderating, expectations about inflation might well be responding only sluggishly to actual price developments because of the past experience with inflation and because of concern about the course of government policies. Certain other factors also are relevant to an explanation of high interest rates. High inflation and interest rate variability in the past few years have undoubtedly added to uncertainty, and thus have increased the risk premium attaching to interest rates, particularly long-term rates. Also, in the earlier stages of an anti-inflation effort, monetary restraint tends to result in a rise in nominal and real interest rates. Finally, the large federal financing requirements that are in prospect will be competing with private borrowers for the resources available, thereby giving rise to the expectation that long-term interest rates will remain high.

There is no ready answer to the question of how long these high interest rates may last. But it is obvious from the above considerations that a durable reduction in interest rates will not be possible until expectations about inflation are effectively brought down--which in present circumstances could require that inflation be reduced substantially and kept low for some time. Price expectations also are affected by the public's view about government policies. For this reason, it is crucial that the Government be firmly committed--and be seen to be so committed--to anti-inflation policies. A strengthening of the fiscal position would be helpful in this regard, and it would also contribute to a reduction of interest rates by relieving credit market pressures.

Finally, questions arise about the effects of fluctuations in U.S. interest rates and exchange rates and the conditions under which the amplitude of these fluctuations might be reduced.

It is clear that day-to-day and week-to-week variability of U.S. interest rates has increased in the past two to three years, to some extent in reflection of the introduction by the Federal Reserve in October 1979 of new operating procedures that place more emphasis on the provision of reserves and less emphasis on limiting changes in the Federal funds rate. However, it is questionable whether interest rate variability of this kind has affected the average level of interest rates or the economy at large in any significant way, either directly or through its effect on exchange rates. The same, in all likelihood, cannot be said of the sizable swings in interest rates, lasting for months, that have occurred in this period. It would seem that these interest rate swings--which have been wider than those observed in the past and have been compressed into unusually short periods of time--have heightened the risk of holding long-term bonds and increased uncertainty in general, thus pushing up interest rates (particularly long-term rates). Broad interest rate swings in the past few years also have been associated with increased fluctuations in exchange rates. It is quite conceivable that these fluctuations have led to misallocation of resources and have had adverse effects on international trade and capital flows, although such views must be judgmental in the absence of clear-cut evidence to support (or contradict) them. (The question of the effects of U.S. interest rate fluctuations on economic policies and conditions in other countries will be considered presently.)

An answer to the question of how U.S. interest rate swings might be reduced requires an understanding of their causes, which unfortunately are not known with any certainty. These swings have perhaps been the result of the sharp fluctuations in economic activity that have taken place in the past few years, but a question may legitimately be asked about the direction of causality between the two phenomena. It may be noted that certain other factors--namely, the second wave of oil price increases, volatile inflationary expectations, the lack of credibility of government policies, and the temporary imposition of credit controls in the spring of 1980--probably have contributed at various times to fluctuations in both interest rates and economic activity. More generally, it should be recognized that the process of adjustment to lower inflation set in motion by a tightening of demand policies is not well known, and therefore it should not be surprising that government actions in response to the evolving situation have contributed at times to variations in economic and financial conditions.

Some have argued that the main cause of U.S. interest rate oscillations is the inability of the Federal Reserve to achieve a stable growth path for the money supply, and the Federal Reserve has been considering measures to improve monetary control. It is a fact that wider swings in interest rates since October 1979 have gone hand in hand with a greater degree of volatility in rates of monetary growth, and it is possible that greater stability in monetary growth would in time bring about less variation in interest rates. However, it should be borne in mind that the overall stance of monetary policy has been more appropriate since October 1979 than in the preceding several years, and it is of the utmost importance that any steps that may be taken to reduce interest rate or monetary growth variations should not result in a loosening of monetary policy.

b. Other major industrial countries

The persistence of exceptionally high and volatile real interest rates in the United States during a period of general stagflation throughout the industrial world has undoubtedly created problems and dilemmas for the authorities of other industrial countries. At the same time, it should be recognized that some of the adverse international effects impinging on those countries have been generated or compounded in considerable part by actions and reactions of their own authorities.

As a matter of general principle, countries that operate with floating exchange rates obviously need not have followed the United States in tightening credit conditions. The risks of not following the United States in this regard would have been least in those countries where inflation and inflationary expectation have been kept most effectively under control. In the event, given the policies chosen, the high interest rates in the United States have led to widespread upward pressure on interest rates elsewhere, and such rates (together with the quantitative restraints on growth of money and credit that accompanied them) have tended to dampen the expansion of demand, especially for investment purposes. In the few countries where inflation had already been brought under relatively adequate control, a further restrictive influence on economic activity was both unwelcome and undesirable. In a good many industrial countries, however, there were already pressing domestic reasons for tighter restraint on expansion of aggregate nominal demand, and some of the countries whose interest rates were raised to defend their external positions against unfavorable international differentials in yields on financial assets may not have gone as far in the tightening of domestic monetary conditions as would have been desirable to combat domestic inflation. Real interest rates in these countries, although rising during the course of 1981, remain below below the average in other industrial countries.

The two major industrial countries with relatively low rates of inflation--Japan and the Federal Republic of Germany--have perhaps been in position to react more independently than the other countries in the group to an international environment featuring both exceptionally high interest rates and slack utilization of capacity. To some extent, the Japanese authorities have, in fact, used this freedom to pursue an independent line of action. Their pursuit of such a course, however, has been limited in scope by constraints--discussed below--inherent in the particular combination of domestic priorities adopted and international conditions faced.

From the point of view of the low-inflation countries, of course, a major source of destabilizing influences has been the inability or unwillingness of a number of their trading partners to adopt and implement on a sustained basis policies designed to control inflation. Persisting differentials in rates of inflation, although not necessarily a dominant influence in exchange markets during any given short period of time, make the maintenance of stable international payments balances and stable exchange rates very difficult, if not impossible, over more extended periods. Inconsistencies in rates of inflation are sometimes offset by other factors temporarily, but their influence is all too likely to become apparent if the offsetting factors disappear, and especially if reinforcing factors should emerge instead--a not uncommon occurrence. Moreover, partly because of the rather long lags with which the interactions between exchange rate changes and current account balances take place, a substantial tendency toward "overshooting" of exchange rate adjustments among major currencies seems to have developed.

Clearly, the whole system of international trade and payments could function a great deal more smoothly if the excessive rates of inflation could be corrected at source through an appropriate mix of policies in each major industrial country. Although the EMS experience to date has demonstrated that it is possible to "live with" wide differences in rates of inflation through a combination of externally defensive monetary policies, exchange market interventions, and occasional adjustments of basic exchange rate relationships themselves, some of the techniques applied within the EMS are not currently feasible on a wider scale involving all or most of the key currencies in a global frame of reference. Both in the latter context and within the EMS, reduction of the higher rates of inflation would probably contribute more than any other single development to a smoother and more orderly evolution of exchange rates. Such an evolution, in turn, would remove or mitigate some of the erratic influences with which monetary policies in most of the industrial countries have had to deal. With reduced volatility of exchange rates and interest rates, uncertainties and costs that might well have been inhibiting trade and investment--e.g., the cost of, and need for, forward cover on external transactions--would be lowered.

More specific comments on problems confronting individual major industrial countries follow.

Japan

The current setting for policy formulation in Japan differs importantly from that in most other industrial countries, chiefly in that inflation has been brought convincingly under control. Moreover, the threat of renewed inflation is low, for a combination of reasons that is unique in the industrial world: expectations do not favor it; monetary policy is viewed as a credible instrument against it; excess capacity exists in most sectors of the economy; and there is little, if any, carryover of past inflation in the form of indexation of wages or prices. On purely domestic grounds, the Japanese authorities are freer to pursue an expansionary economic policy than are the authorities of other industrial countries. They have, however, attached the highest priority to the medium-term objective of eliminating deficit financing of current government expenditures by fiscal year 1984. Given this priority, which is fully understandable from a medium-term, structural point of view, the only instrument of general demand management currently available to provide any new stimulus to the private sector has been monetary policy.

To some extent, monetary policy has been used for that purpose since mid-1980. Japanese monetary conditions, as reflected in credit availability and the growth of monetary aggregates, were clearly eased during the course of 1981. However, under prevailing international conditions, the tendency of the yen to depreciate in response to widening interest rate differentials against yen-denominated assets eventually proved a serious constraint, leading the authorities to forego a reduction of domestic interest rates to the extent that might otherwise have been considered in accord with the needs of the domestic economy. Interest rates remained unusually high in real terms, and the degree of monetary ease was insufficient to offset the unexpectedly severe depressive effects of the decline in real disposable income (resulting from the 1979-80 oil price increases, tax bracket creep, and increased social security contributions) and from the withdrawal of fiscal stimulus under the deficit reduction program.

Japan appears to some of its trading partners to have been following unnecessarily restrictive policies. Although Japan's GNP growth rate has been good by comparison with theirs, the same cannot be said of domestic demand. In 1980, more than four fifths of Japan's real GNP growth stemmed from improvement of its external balance, and the proportion remained almost as high in the first three quarters of 1981 (after which even that stimulus effectively disappeared, leading to a decline in real GNP). Real domestic demand grew by less than 1 per cent in 1980 and in 1981. This overwhelming dependence on foreign demand for maintenance of growth in overall expenditures for Japanese output during the two years reflected both the strong competitiveness of Japanese exports, resulting in part from the depreciation of the real effective exchange rate during 1979 and early 1980, and the absence of an effective stimulus to domestic demand through fiscal and monetary policies.

This lack of stimulus stemmed partly, to be sure, from the constraint imposed on monetary policy by the need to avoid the trade frictions and renewed inflationary pressures threatened by further downward movement of the exchange rate for the yen. It also stemmed importantly, however, from the constraint imposed on fiscal policy by the priority assigned to reduction of the govenment deficit. Whatever the domestic merits of that priority, questions arise in an international context about its implications for demand management. In combination with the unexpectedly strong external constraint resulting from the somewhat surprising weakness of the yen, it has left the growth of the Japanese economy heavily dependent on foreign demand, and has done so in a fashion that--in a recessionary international environment, and in a situation in which structural adjustment in other countries has lagged behind that in Japan--has generated trade tensions. It thus appears that the recent efforts of the Japanese authorities to reduce the fiscal deficit have posed problems for some of Japan's major trading partners.

Japan's rising trade surplus with some of its major trading partners has heightened concern over commercial policy. Japan has responded by taking various actions to enlarge access to its markets, including the relaxation of certain nontariff barriers faced by foreign exporters. It also has chosen voluntarily to restrict certain exports. At the same time, Japan has noted that foreign exporters need to increase their own efforts to sell in Japanese markets. Strengthening of the yen, a hope frequently expressed by Japanese authorities, would contribute greatly to the easing of trade problems. Maximum access by foreign investors to Japan's capital markets should be assured to facilitate this strenthening.

Federal Republic of Germany

The only major industrial country whose situation bears any appreciable resemblance to that of Japan is Germany. There, too, inflation has been kept far below the average elsewhere--although not as low, during the past year or two, as in Japan. Germany's external balance on goods and services, while strengthened by cyclical developments, likewise appears to have been highly responsive during 1981 to a depreciation of the exchange rate--although again not to the degree evident in the case of Japan. However, the current rate of inflation in Germany is rather high by that country's standards, and the priority attached to curbing it is very strong. The desire to limit the effects of a decline in the external value of the deutsche mark on domestic prices has been a consideration in the management of monetary policy, constraining to some extent the scope for reduction of German interest rates during much of 1981 and early 1982. However, the scope that might be provided by a different U.S. policy mix featuring lower U.S. interest rates should not be exaggerated. The level of interest rates in Germany is also a reflection of heavy public sector borrowing, the impact of national and international political considerations on expectations regarding the exchange rate, and the continuing high (by German standards) rate of domestic inflation. It is possible that there may be a problem of some "crowding out" of private borrowers by public sector borrowing, although the staff does not have a firm judgment on this issue. In any case, a change in the U.S. policy mix might only modestly increase the scope for an easing of monetary policy without adverse exchange rate effects.

It sometimes has been argued, from the standpoint of EMS countries with high unemployment and relatively weak external positions, that German policies have been unnecessarily restrictive--that Germany should capitalize on its relatively low rate of inflation and comparatively strong external position by lowering its interest rates to levels more appropriate to existing domestic economic conditions. According to this argument, such action by Germany would allow a general decline in EMS interest rates, to the benefit of the employment situation throughout the area. Benefits would be expected to accrue especially to some of Germany's smaller EMS partners, which entered into the EMS arrangements with relatively weak competitive positions and have undergone considerable strain in the effort to avoid or tolerate the increasing competitive disadvantages emanating from Germany's relatively successful resistance to inflationary pressures. The effective depreciation of EMS exchange rates against overseas currencies, together with its adverse impact on European efforts to control inflation, would be regarded as a moderate--and possibly temporary--sacrifice in the interest of stronger real growth. It might also help to ward off pressures for trade restrictions. Some of those to whom this argument appeals would hope that even temporary sacrifices on the inflation front might be averted or minimized through judicious activation of incomes policies in some form. But without a relaxation of restrictive financial policies in Germany, the pursuit of actively expansionary policies by its European trading partners would pose severe difficulties for exchange rate management. Against this line of argument, however, the staff is of the view--discussed later in this paper--that there is little, if any, room for relaxation of financial policies in Germany at the present time.

France

The French authorities, unlike those of the other major industrial countries with relatively high rates of inflation in 1981, are seeking a more or less immediate revival of demand, relying on a tight incomes policy and deceleration of wage cost increases to improve the mix of volume and price changes in the desired expansion of nominal demand. This strategy, however, is exposed to several hazards that are heightened by the prevalence of high interest rates abroad. On the one hand, failure to maintain adequate interest rate differentials could lead to depreciation of the effective exchange rate and frustration of the effort to reduce inflation. On the other hand, adjustment of monetary policy to minimize that risk might bring domestic interest rates so high as to discourage the desired improvement in prospects for aggregate demand and profitability of investment.

The current French effort to expand demand and output without accelerating inflation depends crucially on successful implementation of an incomes policy intended to produce a deceleration of the rise in wage costs. If such a deceleration is achieved in combination with appropriate monetary restraint, then the stimulation of demand induced by a larger public sector deficit, stronger incentives to invest, and increased confidence will be beneficial not only to the French economy but internationally. Stronger output expansion in France, if combined with reasonable balance in the external current account and a deceleration of inflation, would help to expand markets for France's trading partners without unsettling changes in exchange rate relationships.

A far less satisfactory result might emerge, however, if the crucial incomes policy should prove unsuccessful in slowing wage increases in France. In that event, deterioration of the country's public finances and external current account would create an imbalance within the European monetary system, obliging France and perhaps other members of the group to maintain higher interest rates than they would desire for domestic purposes.

There is also room for concern that the prospect of an increased public sector deficit might sustain inflationary expectations and absorb a sizable share of domestic saving. Further, it may be asked whether the public-sector financing requirement may not put in doubt the consistency of the growth target and monetary restraint, and whether it would permit a reduction of interest rates in France even if international rates moved lower.

Italy

In Italy, monetary policy has been tightened markedly over the past two years, and interest rates have been raised appreciably, especially since May 1981. Although it is true that high international interest rates contributed to the upward pressure behind this movement, it is also true that domestic inflation, weakness of the lira on the exchange markets, and high interest rates have all been mainly attributable to domestic factors, rather than transmitted from abroad. The financing requirements generated by large fiscal deficits have been particularly important in this context.

During 1981, for the first time in a number of years, both long- and short-term interest rates in Italy exceeded the rate of inflation, and this change in real interest rates was itself a significant factor in the reduction of the inflation rate in 1981 after two years of sharp acceleration. Of course, a decline in international interest rates would make it easier, strictly in terms of interest parity considerations, for Italian interest rates to be lowered; but only greater fiscal discipline and a further subsidence of domestic inflation would seem to provide grounds for reduction of nominal interest rates which are offering positive real returns on saving for the first time in many years. Even those returns remained on average lower in 1981 than the average for other major industrial countries, though by considerably smaller margins than in most other years since 1976.

United Kingdom

In the United Kingdom, too, the higher real interest rates that emerged in 1981 were not--up to a point--inconsistent with the strict anti-inflation stance of policy. Moreover, the emergence of somewhat higher real interest rates than might otherwise have been necessary for the success of the authorities' anti-inflation strategy stemmed in considerable part from a fiscal outcome, especially in the 1980/81 fiscal year, that represented a de facto relaxation of policy by comparison with the original intentions of the authorities. (Practical problems in implementing those intentions, such as a sharp boost in the public sector wage bill through comparability awards to civil service employees and overruns of planned expenditures in many areas, were largely responsible for the slippage in the fiscal results; and the civil service pay increases had a strong influence on wage settlements in the private sector, as well as on the budget.) In considerable part, the levels of U.K. interest rates were thus geared essentially to domestic realities.

The U.K. authorities, however, were also among those faced by policy dilemmas associated with the high level and variability of U.S. interest rates. Although they permitted the effective exchange rate for sterling to depreciate by 12 per cent during the first three quarters of 1981, viewing this movement as a welcome adjustment of the substantial real appreciation that had occurred during the previous two years, they moved during the last quarter of 1981 to raise domestic interest rates sharply in order to counter pressure on the exchange rate caused by adverse international interest differentials. Substantial further depreciation of the exchange rate at that stage might have threatened the attainment of the pre-eminent anti-inflation aims. Although the U.K. authorities have succeeded since late 1981 in holding the exchange rate broadly stable while permitting some easing of domestic interest rates, their ability to reduce those rates further without danger on the domestic price front (via the exchange rate and import prices) has been constrained by the persistence of high interest rates abroad. The U.K. authorities continue to face a very delicate balancing of aims and policy actions. They may feel obliged, unless international interest rates ease appreciably in the months ahead, to tighten their monetary policy and thus risk undermining the fragile economic recovery that they now believe to be under way.

Canada

The rate of monetary expansion in Canada has been brought down considerably since the second half of 1980, and interest rates have risen sharply. The increase in interest rates undoubtedly has been warranted by the intensification of domestic inflationary pressures. However, the timing of interest rate movements also has reflected developments in the foreign exchange market. Indeed, the Bank of Canada has sought to relieve downward pressures on the Canadian dollar in the face of rising U.S. interest rates because of concern that in the present environment any depreciation of the currency would exacerbate the inflationary problem. The Canadian-U.S. interest rate differentials needed to protect the external value of the Canadian dollar have been larger in the last 18 months than in the previous two years or so, as the deficit in the current account of the balance of payments increased, the inflation differential between Canada and the United States widened, and capital inflows were adversely affected by Canada's energy policy.

Thus, although interest rates in Canada have been affected by the international situation, their level has been largely a reflection of domestic conditions. Given the overriding importance for Canada of curbing inflation, it would be difficult to argue that the level of Canadian interest rates in the recent past--particularly after their decline in the latter part of 1981--has been too high from the standpoint of domestic requirements. To be sure, M-1 has been below the lower limit of the Bank of Canada's target range for some time, but to a large extent the shortfall has reflected a downward shift in the demand for money as well as certain statistical problems. Moreover, real interest rates at present do not appear to be high by historical standards, particularly when account is taken of the size of the fiscal deficit. Although the fiscal deficit has been reduced somewhat in the past few years, it is still large; further reductions would help relieve pressures on interest rates and make room for private investment and growth over the medium and longer run.

c. Conclusions

Any early relaxation of U.S. monetary policy for the purpose of lowering interest rates in international markets and domestic rates in other industrial countries must be ruled out, for reasons already set forth in Section I-2(a). Otherwise, there would be serious danger of a setback in the effort to reduce inflation and dampen expectations about it, not only in the United States but throughout the industrial world.

But this is not to say that escape from the difficulties and dilemmas created for other countries by recent levels of U.S. interest rates must depend exclusively on actions of those countries. There remains ample scope for adjustment of U.S. fiscal policy, which in its present orientation seems to pose serious problems. It offers, at a time when the deficit of the U.S. Federal Government is already large, a prospect of further increases in that deficit during the next few years. Because of the effect of such a prospect on the credibility of monetary policy and of the government's anti-inflation commitment more generally, remedial action by the United States on the fiscal front is of the utmost importance. It would greatly improve the basis for sustained growth over the longer term; and, with monetary policy unchanged (in terms of growth of monetary aggregates), it would also tend to lower interest rates, thus relieving some of the pressures that have been so disturbing to other countries. At a minimum, those countries would be afforded wider scope--without transgressing the bounds of prudent regard for international interest-parity considerations--for discretion in their own monetary and exchange rate management.

Japan presents another case in which a shift in the present mix of fiscal and monetary policies could be helpful in reconciling international objectives, easing constraints, and eliminating or mitigating major difficulties. As noted above, Japan's generally satisfactory economic performance over the past two years has depended vitally on an expansion of external demand for Japanese products. However, export expansion has recently decelerated because of the lagged effects of the earlier appreciation of the yen against most major currencies other than the U.S. dollar, the weakness of demand abroad, and the restraint shown by Japanese exporters in the face of increasing trade frictions. The Japanese authorities cannot utilize a substantial easing of monetary policy to replace the fading expansion of foreign demand without weakening the exchange rate for the yen at an inopportune time and intensifying the frictions in trading relationships. Such a course might also renew upward pressures on domestic prices. One significant alternative would appear to be a modification of fiscal policy--instead of simply accepting a sluggish or stagnant economy, which itself might call into question the achievement of the authorities' ultimate fiscal goals, and would not in any event be desirable from the point of view of domestic employment and productivity. A modified approach to the goal of reducing the government deficit could permit a more gradual withdrawal of the support given to domestic demand through the fiscal deficit in recent years. Such an approach might be reconciled with the medium-term objectives of the authorities by viewing it as an expedient stretching out of the desired budgetary achievement, rather than a change in objectives.

Meanwhile, both maintenance of a tolerable economic performance and greater scope for management of the exchange rate in such fashion as to avoid additional trade frictions would represent some compensation to the Japanese authorities for the deferment of progress toward their ultimate fiscal objective. From the standpoint of Japan's industrial trading partners, the stronger yen that could result from a shift in the

Japanese policy mix along the lines just discussed would be helpful in fending off unwelcome pressures in those partner countries for protectionist solutions of competitive problems. At the same time, maintenance of adequate growth of domestic demand in Japan would help to provide markets for the rest of the world, and particularly for the developing countries, during a period of weakness in world trade.

Although Japan is perhaps uniquely placed, because of the degree to which its inflation has been brought under control, to undertake an initiative toward expansion of demand at the present juncture, it is important that other countries with relatively low rates of inflation avoid undue severity in the application of financial restraint. This consideration applies especially to Germany, although its rate of saving may leave less room than in Japan for postponement of steps to reduce the fiscal deficit. In any case, no relaxation of German monetary restraint should be contemplated. Apart from the consideration that further depreciation of the deutsche mark against the U.S. dollar would be a destabilizing influence on international trade, the rate of inflation in Germany is not yet so low or so securely under control that the risks inherent in any substantial easing of monetary policy would be justified.

In the majority of the industrial countries, however, every precaution must be taken to avoid premature relaxation of restraint over the growth of nominal demand. What is truly important in the search for convergence of inflation rates is that they converge toward a lower level that is acceptable for the longer term, and not merely that they converge. The main objectives of international harmonization are most likely to be attained in this way--through independent pursuit of sound policies in each country, but with the important qualification that these policies should be assessed in light of international discussions of their probable interactions and mutual compatibility.

A particular area in which a wide body of opinion favors closer harmonization through cooperative official actions is that of exchange rate policies. It is often suggested that coordinated intervention in exchange markets by national authorities--and especially by those of the largest countries--could go far toward dampening short-term fluctuations of exchange rates for major currencies. It is also widely recognized that successful operations of this sort would require a considerable degree of coordination of various policies affecting exchange rates, and particularly of national monetary and interest rate policies. Despite the evident lack of agreement among the major countries on the international aspects of their policies, the Executive Directors may wish to discuss the general desirability or feasibility of cooperative arrangements for exchange rate management.

Consideration of policy interactions among the major industrial countries would be incomplete without reference to the need for these countries--in the interests of both themselves and other countries--to eschew protectionism and promote an open environment for international trade. This important issue is raised for discussion under Topic II-3, below.

II. Other Topics

As mentioned earlier, topics other than "Policies of the Major Industrial Countries" are to be taken up on April 21, the second day of the scheduled WEO discussion. Background documentation for discussion of the three proposed topics can be cited quite briefly, inasmuch as it may be drawn from various sections of the draft WEO report for publication. That is, it has not been necessary, as in the case of the industrial-country topic, to prepare additional, special material for discussion of these other topics.

1. Global economic setting

Coverage of this important topic is provided by the first section--"Current Situation and Short-Term Prospects"--of Chapter II of the draft WEO report for publication. In reviewing this section, with the aid of the statistical tables appended to the present paper, Directors may wish to comment on specific features of the world economic picture. Such a discussion would doubtless be helpful to the Managing Director in connection with his statements to the Interim Committee in Helsinki, as well as to the staff in connection with the WEO publication.

2. Situation of the developing countries

It is suggested that, in discussing this topic, Directors give particular attention to the relevant parts of "Key Policy Issues," a section of Chapter II of the draft WEO report, and to the section of that chapter on "Medium-Term Scenarios." In this discussion, Directors may also wish to draw on Chapters IV and V of the draft WEO report, which for the oil exporting countries and the non-oil developing countries, respectively, cover the current stance of policies and developments and prospects (both domestic and external).

3. Role of international cooperation

International cooperation is unquestionably of vital significance in the current state of the world economy. In the draft of "Current Situation and Short-Term Prospects" (referred to above), the staff noted that, in essence, international cooperation means that each country should take account of the interests of other countries in the formulation and conduct of its own economic policies; and the avoidance or rescinding of protectionist trade measures was cited as an extremely important form of such cooperation. (See the special note on "Developments in Trade Policies," in Appendix A-8 of the draft WEO report for publication.) In addition, member countries' support for the activities of the Fund (discussed in the last section--"Role of the Fund"--of Chapter II of the draft WEO publication) was also singled out in this regard.

These thoughts are certainly not new. But, with the Helsinki meeting in mind, Directors may wish to address the subject of international cooperation again in order to signify their acute concern about protectionism and their continuing strong support for the evolving role of the Fund, as well as to contribute some additional points, perhaps arising in connection with the discussions of the policies of industrial and developing countries under Topics I and II-2. Better international cooperation could make for a significant improvement in the situation of the world economy; loss or serious erosion of international cooperation could be catastrophic.

Table 1. Industrial Countries: Changes in Output and Prices, 1963-82 1/

(In per cent)

	Average 1963-72 2/	Average 1973-77 2/	Change from Preceding Year 1978	1979	1980	1981	1982	1983
Real GNP								
Canada	5.5	4.0	3.7	3.0	--	3.0	-0.5	1.6
United States	4.0	3.0	4.8	3.2	-0.2	2.0	-1.0	1.8
Japan	9.8	4.1	5.1	5.2	4.2	2.9	3.5	4.0
France 3/	5.5	3.4	3.7	3.5	1.2	0.8	2.1	3.2
Germany, Fed. Rep. of	4.5	2.3	3.6	4.4	1.8	-0.3	1.0	3.0
Italy 3/	4.6	3.0	2.7	4.9	4.0	-1.0	1.4	2.7
United Kingdom 3/	3.0	1.8	3.6	2.0	-1.6	-2.1	0.8	1.6
Other industrial countries 4/	5.0	3.0	2.1	3.0	1.9	0.3	1.6	2.4
All industrial countries	4.7	3.0	4.0	3.6	1.3	1.2	0.8	2.5
Of which:								
Seven larger countries above	4.7	3.0	4.3	3.7	1.1	1.3	0.6	2.5
European countries	4.5	2.7	3.0	3.5	1.4	-0.3	1.4	2.6
GNP deflator								
Canada	3.6	10.3	6.3	10.4	10.6	10.0	9.8	7.4
United States	3.5	6.9	7.3	8.5	9.0	9.2	7.5	6.1
Japan	5.5	10.3	4.6	2.5	3.0	2.7	2.3	2.3
France 3/	4.8	10.2	9.5	10.1	11.6	11.0	13.7	12.5
Germany, Fed. Rep. of	4.0	5.3	3.8	3.7	4.9	4.1	4.5	4.0
Italy 3/	5.0	17.0	13.9	15.7	20.3	15.8	18.2	17.0
United Kingdom 3/	5.3	15.3	10.9	15.1	18.9	12.5	10.0	8.0
Other industrial countries 4/	5.4	11.0	9.0	7.7	8.6	8.8	9.0	8.3
All industrial countries	4.2	9.1	7.5	7.8	8.9	8.3	7.9	6.9
Of which:								
Seven larger countries above	4.0	8.7	7.2	7.9	9.0	8.2	7.8	6.7
European countries	4.9	10.6	8.7	8.8	10.8	9.4	10.0	9.1

1/ Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the previous three years.
2/ Compound annual rates of change.
3/ GDP at market prices.
4/ Australia, Austria, Belgium, Denmark, Finland, Iceland, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.

Table 2. Developing Countries: Changes in Output, 1968-82 1/

(In per cent)

	Average 1968-72 2/	Average 1973-77 2/	Change From Preceding Year 1978	1979	1980	1981	1982
Oil exporting countries 3/ 4/	9.0	6.0	1.8	2.9	-2.8	-4.5	--
Oil sector	...	2.9	-4.2	-3.0	-12.7	-15.3	-7.3
Other sectors	...	11.0	5.8	2.8	4.6	5.0	5.3
Non-oil developing countries 3/							
Weighted average 3/	...	...	6.4	5.0	4.8	2.5	3.8
Excluding China	6.0	5.3	5.5	4.7	4.4	2.5	3.9
Median	4.9	4.9	5.6	4.7	4.0	3.0	4.0
By analytical group							
Weighted averages 3/							
Net oil exporters 5/	7.0	6.0	6.2	7.2	7.3	6.6	5.1
Net oil importers	...	...	6.4	4.7	4.4	1.9	3.6
Excluding China	5.8	5.2	5.3	4.2	3.9	1.7	3.7
Major exporters of manufactures 6/	8.1	6.2	4.9	6.3	4.4	-0.2	3.5
Low-income countries 7/	...	...	8.8	3.4	5.2	3.6	3.9
Excluding China	3.4	4.0	5.9	0.1	3.4	4.3	4.3
Other net oil importers	5.5	4.8	5.5	3.6	3.1	3.3	3.5
Medians							
Net oil exporters 5/	5.4	6.0	6.2	5.5	7.0	5.1	4.7
Net oil importers	4.8	4.6	5.5	4.5	3.5	2.7	3.7
Major exporters of manufactures 6/	8.5	6.8	6.7	6.8	5.5	4.1	4.0
Low-income countries 7/	3.9	3.7	5.1	4.1	4.0	2.9	3.8
Other net oil importers	4.9	5.0	6.0	4.8	3.0	2.5	3.5
By area							
Weighted averages 3/							
Africa	4.9	3.8	2.4	2.6	4.6	2.6	2.0
Asia	...	...	9.6	4.6	4.8	4.7	4.8
Excluding China	4.5	5.6	8.1	3.1	3.4	5.7	5.6
Europe	6.2	5.3	5.4	4.1	1.7	2.7	2.8
Middle East	7.5	4.6	6.8	5.0	6.1	4.7	6.8
Western Hemisphere	7.6	5.8	4.4	6.7	6.0	-0.1	3.5
Medians							
Africa	4.2	3.9	3.5	4.2	3.0	2.0	3.8
Asia	4.9	5.1	6.2	6.1	5.8	5.0	4.3
Europe	6.7	5.9	6.8	7.0	3.0	2.2	3.0
Middle East	6.4	5.8	7.2	5.2	6.5	5.4	5.3
Western Hemisphere	5.0	5.1	6.0	4.8	3.5	2.0	2.1

1/ Data in this table cover all Fund members except those listed in Table 1, together with a few territories for which balance of payments statistics are readily available.
2/ Compound annual rates of change.
3/ Arithmetic averages of country growth rates weighted by the average U.S. dollar value of GDPs over the previous three years.
4/ These groups, and each of the regional subgroups of non-oil developing countries, conform to the classification now used in the International Financial Statistics.
5/ Comprise Bahrain, Bolivia, Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, Syrian Arab Republic, Trinidad and Tobago, and Tunisia.
6/ Include Argentina, Brazil, Greece, Hong Kong, Israel, Korea, Portugal, Singapore, South Africa, and Yugoslavia.
7/ Comprise 40 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of US$350 in 1978.

Table 3. Developing Countries: Changes in Consumer Prices, 1968-82 1/
(In per cent)

	Average 1968-72 2/	Average 1973-77 2/	Change from Preceding Year 1978	1979	1980	1981	1982
Oil exporting countries							
Weighted average 3/	8.0	15.9	10.2	10.5	12.6	11.8	10.5
Non-oil developing countries							
Weighted average 3/	...	...	20.0	24.7	32.1	31.4	29.4
Excluding China	9.1	26.5	23.6	29.0	36.9	37.2	34.5
Median	4.2	13.0	9.4	12.2	14.9	13.8	12.0
By analytical group							
Weighted averages 3/							
Net oil exporters	4.1	16.7	17.7	17.7	24.2	24.6	36.6
Net oil importers	...	...	20.3	25.8	33.3	32.4	28.1
Excluding China	10.0	28.3	24.8	31.2	39.3	39.7	34.0
Major exporters of manufactures	14.1	36.0	37.3	44.6	54.3	62.2	51.0
Low-income countries	...	...	3.7	6.8	11.6	9.6	8.0
Excluding China	6.5	14.5	6.5	11.5	15.9	17.6	14.4
Other net oil importers	8.4	28.1	19.3	24.6	32.9	20.2	20.0
Medians							
Net oil exporters	3.8	13.6	10.5	9.0	15.1	14.7	13.0
Net oil importers	4.2	12.9	9.3	12.2	14.9	13.4	12.0
Major exporters of manufactures	7.6	16.5	14.4	19.0	24.9	23.3	19.0
Low-income countries	4.3	13.0	9.3	11.9	13.1	13.5	12.0
Other net oil importers	3.9	12.5	8.6	12.2	14.8	12.5	10.0
By area							
Weighted averages 3/							
Africa	4.6	14.9	15.2	19.2	19.3	22.7	24.3
Asia	...	...	3.7	6.5	12.6	9.9	7.7
Excluding China	6.5	13.5	5.7	9.4	16.0	15.4	11.5
Europe	6.1	14.7	21.1	27.5	40.5	25.9	21.2
Middle East	4.3	18.8	21.1	25.8	42.7	32.8	31.8
Western Hemisphere	15.3	47.4	42.4	49.6	58.3	65.7	61.1
Medians							
Africa	4.2	12.8	9.9	12.2	12.0	13.0	12.0
Asia	3.8	12.3	6.1	8.2	15.0	12.5	10.9
Europe	3.8	13.2	12.5	19.0	16.6	19.5	19.0
Middle East	4.4	15.9	11.9	12.1	17.1	9.0	10.0
Western Hemisphere	4.3	14.3	10.4	15.6	18.1	15.0	10.0

1/ For classification of countries in groups shown here, see Table 2.
2/ Compound annual rates of change.
3/ Geometric averages of country indices weighted by the average U.S. dollar value of GDPs over the previous three years.

Table 4. Major Industrial Countries: Unemployment Rates, 1963-82 1/

	Average 1963-72	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Canada	4.7	5.5	5.3	6.9	7.1	8.1	8.4	7.5	7.5	7.6	9.2
United States	4.7	4.9	5.6	8.5	7.7	7.0	6.0	5.8	7.1	7.6	9.1
Japan	1.2	1.3	1.4	1.9	2.0	2.0	2.2	2.1	2.1	2.2	2.1
France	1.9	2.6	2.8	4.1	4.4	4.7	5.2	5.9	6.3	8.1	8.8
Germany, Fed. Rep. of	0.9	1.0	2.2	4.1	4.1	4.0	3.8	3.3	3.4	4.8	6.4
Italy 2/	6.4	6.5	5.9	6.3	6.7	7.2	7.2	7.7	7.6	8.5	9.3
United Kingdom	2.4	2.6	2.6	3.9	5.3	5.8	5.7	5.4	6.9	10.6	12.0
All seven countries 3/	3.2	3.4	3.8	5.5	5.5	5.4	5.1	5.0	5.7	6.5	7.6

1/ The figures shown in this table are not comparable among countries since they are based on the differing labor force definitions and concepts used by the respective national statistical agencies.

2/ Figures for 1963 to 1976 have been adjusted by the staff to allow for a discontinuity in Italian labor force statistics.

3/ Weighted average, with weights proportionate to labor force.

Table 5. World Trade Summary, 1963-82 1/

(Percentage changes)

	Average 1963-72 2/	Average 1973-77 2/	1978	1979	1980	1981	1982 3/
World Trade 3/4/							
Volume	8.5	5.5	5.5	6.5	2.0	--	2.0
Unit value (U.S. dollar terms)	3.0	15.5	10.0	18.5	20.0	-0.5	3.0
(SDR terms) 5/	2.0	13.5	2.5	15.0	19.5	10.0	5.5
Volume of trade							
Exports							
Industrial countries	8.8	6.3	6.1	6.7	4.7	2.8	2.0
Developing countries							
Oil exporting countries	9.2	2.7	-4.0	3.0	-12.8	-16.3	-7.0
Non-oil developing countries	6.7	5.8	9.4	9.4	5.6	3.1	7.0
Imports							
Industrial countries	9.1	4.2	5.2	8.4	-1.3	-2.3	2.0
Developing countries							
Oil exporting countries	8.4	26.6	4.8	-12.3	14.9	19.8	7.0
Non-oil developing countries	6.2	5.1	8.3	11.2	3.5	2.5	3.0
Unit value of trade (in SDR terms) 5/							
Exports							
Industrial countries	2.1	10.9	5.3	12.1	11.8	6.1	6.0
Developing countries							
Oil exporting countries	2.6	37.2	-6.3	42.1	58.2	22.0	--
Non-oil developing countries	1.2	15.7	-1.7	13.9	18.8	13.0	6.0
Imports							
Industrial countries	1.8	14.1	2.6	15.2	21.0	6.9	4.0
Developing countries							
Oil exporting countries	2.1	12.3	4.9	10.5	11.7	8.7	5.5
Non-oil developing countries	1.1	14.8	2.5	14.2	24.3	15.0	7.5

1/ For classification of countries in groups shown here, see Tables 1 and 2. Excludes data for the People's Republic of China prior to 1978.

2/ Compound annual rates of change.

3/ Figures are rounded to the nearest 0.5 per cent.

4/ Averages based on data for the three groups of countries shown separately below and on partly estimated data for other countries (mainly the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe).

5/ For years prior to 1970, an imputed value of US$1.00 has been assigned to the SDR.

Table 6. Terms of Trade Developments, 1963-82 1/

(Percentage changes)

	Average 1963-72 2/	Average 1973-77 2/	1978	1979	1980	1981	1982 3/
Industrial countries	0.3	-2.7	2.6	-2.7	-7.6	-0.7	1.5
Developing countries							
Oil exporting countries	0.5	19.1	-10.7	28.7	41.7	12.2	-5.5
Non-oil developing countries	--	0.8	-4.1	-0.2	-4.4	-1.7	-1.0
Memorandum item							
World trade prices (in U.S. dollar terms) for major commodity groups 4/							
Manufactures	3.0	11.9	14.7	14.5	11.0	-5.0	5.0
Oil	3.0	41.1	0.1	48.7	62.0	11.0	-3.0
Non-oil primary commodities (market prices)	2.5	17.0	-4.6	16.5	9.7	-14.7	1.0

1/ Based on foreign trade unit values except where indicated. For classification of countries in groups shown here, see Tables 1 and 2. Excludes data for the People's Republic of China prior to 1978.

2/ Compound annual rates of change.

3/ Figures are rounded to the nearest 0.5 per cent.

4/ As represented, respectively, by (a) the United Nations' export unit value index for the manufactures of the developed countries; (b) the oil export unit values of the oil exporting countries; and (c) the International Financial Statistics index of market quotations for non-oil primary commodities.

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Corrected: 3/31/82

Table 7. Summary of Payments Balances on Current Account, 1977-82 1/

(In billions of U.S. dollars)

	1977	1978	1979	1980	1981	1982 2/
Industrial countries	-5.6	30.5	-10.1	-44.8	-3.9	14.0
Canada	-4.0	-4.0	-4.3	-1.9	-5.8	-5.0
United States	-11.3	-10.9	5.0	8.4	11.0	2.0
Japan	11.2	18.0	-8.0	-9.5	6.1	16.5
France	-1.6	5.2	3.0	-6.3	-6.6	-6.5
Germany. Fed. Rep. of	8.5	13.6	0.9	-9.0	-1.2	10.5
Italy	3.1	7.9	6.4	-9.4	-7.4	-3.5
United Kingdom	1.5	4.5	0.7	11.5	19.8	12.5
Other industrial countries	-12.9	-3.6	-13.7	-28.7	-20.0	-12.5
Developing countries						
Oil exporting countries	30.8	2.9	69.8	115.0	70.8	25.0
Non-oil developing countries	-28.3	-38.9	-58.8	-85.6	-102.0	-100.0
By analytical group:						
Net oil exporters	-6.5	-7.9	-8.5	-11.0	-20.6	-23.0
Net oil importers	-21.8	-31.0	-50.3	-74.6	-81.5	-77.0
Major exporters of manufactures	-7.9	-9.9	-21.5	-32.4	-36.0	-32.5
Low-income countries	-2.6	-7.9	-11.5	-16.4	-15.3	-16.0
Other net oil importers	-11.3	-13.2	-17.4	-25.8	-30.2	-28.5
By area:						
Africa 3/	-6.6	-9.0	-9.7	-12.7	-13.3	-13.0
Asia	-0.6	-6.5	-14.1	-24.4	-25.8	-29.0
Europe	-7.6	-5.2	-8.5	-10.9	-7.9	-6.5
Middle East	-5.2	-6.5	-8.5	-7.8	-9.0	-12.5
Western Hemisphere	-8.7	-13.2	-21.3	-33.1	-41.5	-36.0
Total 4/	-3.1	-5.5	0.9	-15.4	-35.1	-61.0

1/ Goods, services, and private transfers. For classification of countries in groups shown here, see Tables 1 and 2.

2/ Figures are rounded to the nearest $0.5 billion.

3/ Excluding South Africa.

4/ Reflects errors, omissions, and asymmetries in reported balance of payments statistics, plus balance of listed groups with other countries (mainly the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe).

Table 8. Industrial Countries: Balances on Current Account, Including Official Transfers, 1977-82 1/

(In billions of U.S. dollars)

	1977	1978	1979	1980	1981	1982 2/
Canada	-4.1	-4.3	-4.2	-1.6	-5.5	-5.0
United States	-14.1	-14.1	1.4	3.7	6.6	-3.0
Japan	10.9	17.6	-8.8	-10.7	4.7	15.0
France	-3.0	3.7	1.3	-7.9	-7.9	-7.5
Germany, Fed. Rep. of	4.1	9.2	-5.3	-16.4	-7.8	4.0
Italy	2.5	6.4	5.5	-9.8	-8.0	-4.0
United Kingdom	-0.5	1.2	-3.7	7.2	16.2	9.0
Other industrial countries	-14.5	-5.6	-16.0	-31.7	-23.9	-17.0
All industrial countries	-18.7	14.1	-29.7	-67.2	-25.5	-8.5
Of which:						
Seven larger countries	-4.2	19.7	13.8	-35.5	-1.6	8.5

1/ The balances shown in this table cover goods, services, and all (private and official) current transfers. For country classification, see Table 1.

2/ Figures are rounded to the nearest $0.5 billion.

Table 9. Non-Oil Developing Countries: Current Account Balances as Percentage of Exports of Goods and Services, 1967-82 1/

	Average 1967-72	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Non-oil developing countries											
Weighted average 3/	...	...	...	...	...	-12.9	-15.0	-17.7	-20.4	-22.7	-19.9
Excluding China	-17.8	-10.6	-24.8	-30.9	-18.1	-13.9	-15.5	-18.1	-21.0	-23.7	-20.8
Median	-19.7	-19.2	-22.7	-31.6	-23.6	-21.8	-31.6	-30.0	-36.8	-41.1	-36.0
By analytical group											
Weighted averages 3/											
Net oil exporters	-19.6	-17.3	-21.8	-42.1	-27.6	-19.6	-20.2	-15.5	-14.8	-25.7	-26.9
Net oil importers	...	...	...	...	...	-11.7	-14.1	-18.1	-21.6	-22.0	-18.5
Excluding China	-17.6	-9.6	-25.4	-28.9	-16.3	-12.8	-14.7	-18.7	-22.3	-23.2	-19.5
Major exporters of manufactures	-13.1	-7.0	-27.9	-28.1	-14.6	-7.7	-8.0	-13.7	-16.3	-16.6	-13.4
Low-income countries	...	...	...	...	...	-8.9	-23.6	-26.9	-31.8	-28.5	-26.8
Excluding China	-34.8	-35.7	-53.5	-50.4	-23.8	-17.4	-33.1	-37.2	-46.9	-47.3	-45.1
Other net oil importers	-15.5	-4.3	-12.2	-22.5	-16.7	-20.7	-21.2	-22.3	-26.9	-30.3	-25.0
Medians											
Net oil exporters	-19.1	-12.9	--	-21.2	-21.3	-20.4	-23.0	-14.1	-5.7	-14.8	-21.6
Net oil importers	-19.5	-19.8	-24.9	-31.8	-23.1	-21.3	-32.5	-31.7	-44.3	-42.0	-40.5
Major exporters of manufactures	-12.2	-0.8	-19.0	-24.3	-5.7	-1.6	-5.5	-5.2	-15.8	-17.8	-14.3
Low-income countries	-26.8	-27.7	-56.3	-71.6	-38.0	-38.9	-62.1	-61.4	-72.2	-69.6	-60.5
Other net oil importers	-16.2	-13.6	-16.6	-25.7	-14.1	-19.3	-23.5	-25.4	-28.5	-34.0	-29.0
By area											
Weighted averages 2/											
Africa	-16.9	-10.6	-17.9	-34.2	-27.5	-17.7	-19.0	-12.6	-14.8	-31.8	-28.5
Asia	...	...	...	...	...	-0.7	-6.2	-10.4	-14.4	-13.8	-13.6
Excluding China	-12.1	-7.4	-19.8	-18.0	-4.1	-2.1	-6.5	-10.5	-15.2	-15.4	-15.0
Europe	-6.9	1.9	-20.7	-21.8	-16.4	-28.1	-16.4	-21.7	-22.8	-14.3	-10.0
Middle East	-27.0	-40.0	-42.8	-63.7	-42.3	-33.2	-34.7	-36.6	-24.1	-26.5	-33.5
Western Hemisphere	-20.3	-16.1	-32.8	-40.5	-25.5	-15.3	-20.7	-25.5	-30.7	-35.1	-27.4
Medians											
Africa	-21.0	-23.8	-29.3	-44.0	-29.4	-23.6	-45.3	-47.0	-60.2	-55.3	-54.7
Asia	-16.7	-10.0	-12.1	-27.6	-12.5	-15.6	-24.0	-22.9	-31.5	-31.0	-29.7
Europe	-5.7	5.5	-21.9	-20.2	-6.4	-19.4	-15.1	-20.4	-18.0	-11.1	-5.8
Middle East	-14.6	-28.1	-55.5	-42.7	-39.9	-26.8	-37.8	-38.5	-27.6	-40.9	-40.1
Western Hemisphere	-20.1	-16.5	-23.5	-26.6	-10.8	-20.2	-13.4	-20.7	-25.9	-31.1	-27.5

1/ For classification of countries in groups shown here, see Table 2.
2/ Ratios of current account balances to exports of goods and services for individual countries, averaged on the basis of current exports of goods and services weights. Such estimates correspond exactly to those obtained through calculation for any particular grouping of countries of the ratio of the sum of the current account balances to the corresponding sum of exports of goods and services values.

Table 10. Non-Oil Developing Countries: Current Account Financing, 1973-82 1/

(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Current account deficit 2/	10.7	36.5	45.5	29.4	28.3	38.9	58.8	85.6	102.0	100.0
Financing through transactions that do not affect net debt positions	10.1	13.0 3/	11.8	12.0	14.9	17.2	23.0	24.1	26.3	27.8
Net unrequited transfers received by governments of non-oil developing countries	5.4	6.9 3/	7.0	7.3	8.3	8.2	10.9	12.3	12.9	13.6
SDR allocations, valuation adjustments, and gold monetization	0.4	0.7	-0.6	-0.2	1.3	2.1	2.8	1.8	-0.2	--
Direct investment flows, net	4.3	5.4	5.4	4.8	5.3	6.9	9.2	10.0	13.6	14.1
Net borrowing and use of reserves 4/	0.6	23.5 3/	33.7	17.4	13.4	21.7	35.9	61.6	75.8	72.1
Reduction of reserve assets (accumulation -)	-10.2	-2.9	1.3	-13.8	-12.4	-15.7	-12.5	-3.7	-0.8	-3.2
Net external borrowing 5/	10.8	26.4 3/	32.4	31.2	25.8	37.4	48.3	65.3	76.6	75.3
Long-term borrowing	12.2	20.5 3/	27.5	28.8	26.5	35.3	39.0	46.2	55.4	56.9
From official sources	5.5	9.5 3/	11.5	10.9	12.6	14.2	15.4	20.5	20.6	22.1
From private sources	8.4	13.8	15.4	19.4	23.0	27.9	33.1	31.4	39.0	39.4
From financial institutions	7.2	12.7	13.8	17.0	19.4	23.9	32.4	30.1	38.0	38.4
From other lenders	1.2	1.1	1.5	2.4	3.6	4.0	0.8	1.3	1.0	1.0
Residual flows, net 6/	-1.6	-2.8	0.6	-1.5	-9.2	-6.9	-9.5	-5.8	-4.1	-4.6
Use of reserve-related credit facilities 7/	0.2	1.7	2.5	4.4	-0.1	0.5	-0.6	4.4	8.9	7.3
Other short-term borrowing, net	0.2	5.2	6.4	12.2	0.8	4.3	9.4	19.9)	12.3	11.1
Residual errors and omissions 8/	-1.7	-0.9	-4.1	-14.2	-1.1	-2.5	0.5	-4.7)		

1/ Excludes data for the People's Republic of China prior to 1977. For country classification, see Table 2.
2/ Net total of balances on goods, services, and private transfers, as defined for the Fund's Balance of Payments Yearbook purposes (with sign reversed).
3/ Excludes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees, and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing government transfers by about US$2 billion, with an offset in net official loans.
4/ That is, financing through changes in net debt positions (net borrowing, less net accumulation--or plus net liquidation--of official reserve assets).
5/ Includes any net use of nonreserve claims on nonresidents, errors and omissions in reported balance of payments statements for individual countries, and minor deficiencies in coverage.
6/ These residual flows comprise two elements: (1) net changes in long-term external assets on non-oil developing countries and (2) residuals and discrepances that arise from the mismatching of creditor-source data taken from debt records, with capital flow data taken from national balance of payments records.
7/ Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.
8/ Errors and omissions in reported balance of payments statements for individual countries, and minor omissions in coverage.

Table 11. Non-Oil Developing Countries: Distribution of Financing Flows for Current Account Deficits and Reserve Accretions, 1973-82 1/

(In per cent)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Net oil exporters										
Nondebt-creating flows, net	58	51	35	33	45	44	54	40	35	35
Official long-term capital, net	21	18	33	26	50	36	21	24	15	15
Private long-term capital, net	37	30	43	63	57	50	36	32	35	40
Other financing flows, net 2/	-16	1	-11	-22	-52	-29	-11	4	15	10
Net oil importers 3/										
Nondebt creating flows, net	45	30 4/	24	25	35	29	28	25	24	25
Official long-term capital, net	27	25 4/	23	24	26	25	22	23	22	22
Private long-term capital, net	28	24	32	32	29	36	32	28	33	33
Other financing flows, net 2/	--	21	21	19	10	10	18	24	21	20
Major exporters of manufactures										
Nondebt creating flows, net	40	26	17	20	35	31	26	24	21	23
Official long-term capital, net	17	10	12	13	17	19	16	12	9	10
Private long-term capital, net	43	40	44	39	46	60	37	29	47	40
Other financing flows, net 2/	--	24	27	28	2	-9	23	35	24	27
Low-income countries										
Nondebt creating flows, net	52	43 4/	35	40	51	41	33	34	30	29
Official long-term capital, net	38	57 4/	51	56	51	45	33	45	42	43
Private long-term capital, net	8	-12	1	2	-12	-6	24	18	18	16
Other financing flows, net 2/	--	12	13	2	10	20	10	3	10	12
Other net oil importers										
Nondebt creating flows, net	48	24	30	25	26	22	28	21	23	26
Official long-term capital, net	38	24	23	22	23	20	22	23	27	28
Private long-term capital, net	14	32	32	39	30	32	32	33	25	31
Other financing flows, net 2/	--	20	15	14	22	27	18	24	25	15

1/ For classification of countries in groups shown here, see the introduction to this appendix.
2/ Including, in addition to recorded short-term capital flows, net use of Fund credit plus net errors and omissions.
3/ Excludes data for the People's Republic of China prior to 1977.
4/ Excludes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees, and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing government transfers by about US$2 billion, with an offset in net official loans.

INTERNATIONAL MONETARY FUND

Mr. Volcker

With the Compliments of

Jacques de Larosiere

Managing Director

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

May 20, 1981

Dear Mr. Secretary:

I write to you in order to clarify the way in which matters have developed concerning the chairmanship of the Interim Committee. I am prompted to do so in particular by a telephone call which I received last night from Mr. McNamar, who expressed great concern on this question. I feel it is especially important because of the most constructive way in which the U.S. Treasury has been cooperating with the Fund, and the great value I set on continuing this working relationship and preserving excellent personal relations.

I have provided Mr. McNamar with a résumé of my relevant contacts with member countries on the question of the Interim Committee chairmanship, including particularly records of my two meetings with Executive Directors on Thursday, May 14, and my conversation with Mr. Leimone, of the U.S. office in the Fund, the following day. I will not trouble you therefore with the details of these contacts; the substance of the matter is straightforward.

On learning of the resignation of Mr. Monory as Chairman of the Interim Committee, I informed the Executive Board without delay. I judged that in view of the limited time available it might be constructive also to try to identify the name of a possible candidate, to facilitate the process whereby members of the Committee would select to chair their meeting a person of wide acceptability.

I met with the Fund's Executive Directors or their Alternates in the morning of Thursday, May 14. Initial reactions to the possible candidacy of Mr. MacEachen, given on a personal and tentative basis, were in general very favorable. There were no warnings of concern about the procedure adopted, nor the substance of what I said. After speaking, in most cautious terms, to Mr. MacEachen I asked Executive Directors to join me again on the Thursday afternoon when I informed them of Mr. MacEachen's readiness to be proposed. The general reception of this information was appreciative. The U.K. Executive Director, however, noted that Sir Geoffrey Howe had been approached by some Ministers about the possibility of offering himself as a candidate for the chairmanship; he emphasized that this had not been an initiative by Sir Geoffrey Howe, whose decision was not yet known. On Friday morning, I received telephone calls from Mr. Schulmann in Bonn, who informed me that Germany's preference was for Sir Geoffrey Howe, and from Mr. Monory, who informed me that his own preference remained for Mr. MacEachen. I conveyed these reactions to the Canadian authorities. That afternoon I asked Mr. Leimone, of the U.S. office in the Fund, to join me so that I could inform him fully of developments up to that time. He undertook to arrange for this account to be conveyed to you and Mr. Sprinkel, and promised also to mention real concern that I had not been made aware at an earlier stage of the reported strong preference in the G-5 countries for Sir Geoffrey Howe to succeed Mr. Monory. Mr. Leimone informed me that the U.S. Treasury in Washington did not yet have a full report of the G-5 Deputies' meeting in Paris.

Apart from the contacts described above, I have had no direct communication from the U.S. Treasury, nor any request to contact the U.S. Treasury, since Thursday morning of last week. In light of this you will understand that I was very surprised that Mr. McNamar should believe I had failed to respond to several telephone calls from senior members of the U.S. Treasury. Throughout these events I have acted completely openly and never failed to respond to any requests for information.

On the substance, I remain convinced that convening the Executive Directors before taking any initiative was a correct course of action. I deeply regret that the strong views of the United States were not conveyed to me at an earlier stage and that I was not taken into your confidence at an appropriate time. It is my sincere hope that this letter will set the record straight about my own actions, and I would ask you to understand that I have not in any way sought to withhold information from or avoid the fullest consultation with the U.S. Treasury.

With kind regards,

Sincerely yours,

(SIGNED)

J. de Larosiere

Attachment: Copy of McNamar letter with resume only.

The Honorable
Donald T. Regan
Secretary of the Treasury
Washington, D.C.

cc: Managing Director
Deputy Managing Director
Mr. Van Houtven
Mr. Watson

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

Private and Confidential   May 20, 1981

Dear Mr. McNamar:

Following our conversation yesterday evening, I thought you might be interested to read the attached records which were kept of relevant contacts with member countries, in connexion with the question of the Interim Committee Chairmanship. If you or your colleagues have any further questions about the handling of this matter, I should be very happy to respond.

May I add that, having spoken with the staff of my office, there appear to have been no incoming telephone calls or other communications from the United States Treasury last Thursday and Friday (May 14 and 15) apart from my contacts with Mr. Leimone of which records are attached. On Sunday (May 18) I was told that Mr. Leddy had obtained from my wife, in Washington the previous day, the number on which I could be contacted in Paris on Sunday (Sofitel Bourbon Hotel); my wife has confirmed that she was told I would be contacted rather than the reverse. However, I received no call from the Treasury. Monday evening, on arriving in Cameroon, I was told that my number in Yaoundé had been given to Secretary Regan at his request but I received no message. On Tuesday, my personal assistant spoke routinely with the Deputy Managing Director, who was already in Libreville; Mr. Dale mentioned that he had spent a few minutes talking to Mr. Leddy, but specifically stated that Mr. Leddy made no mention of any message to me.

I have acted completely openly and never failed to respond to any request for information. On the substance, I remain convinced that convening the Executive Directors, before taking any initiative was a correct course of action. I deeply regret that your strong views on the Chairmanship were not conveyed to me at an early stage, which would have been a sound course of action, and that I was not taken into your confidence at an appropriate time.

I am sending a similar letter to Secretary Regan in order to keep him informed.

Yours sincerely,

Larosière

P.S. Mr. MacEachen has been kept informed of developments.

Attachments: Memo for Files: Chairman of Interim Committee-
Informal Discussion between the Managing Director and Executive Directors - 5/15 (May 14 - 10:15)
Memo for Files: 5/15 (May 14 - 4:15)

The Honorable
R. Timothy McNamar
Deputy Secretary of the Treasury

cc: Managing Director
Deputy Managing Director
Mr. Van Houtven
Mr. Watson

Chairmanship of the Interim Committee

Résumé of Relevant Contacts with Member Countries

Thursday, May 14

10.15 am - Meeting with Executive Directors (record attached)

12.00 noon - Telephone conversation with Mr. MacEachen (recorded as part of 4.15 pm meeting).

4.15 pm - Meeting with Executive Directors (record attached)

Friday, May 15

a.m. - Telephone call from Mr. Schulmann, who stated that Germany would prefer Sir Geoffrey Howe to be Chairman and mentioned that some other industrialized countries shared this preference.

- Telephone call from Mr. Monory, who told me that his preference had been and remained that Mr. MacEachen should chair the meeting.

4. 15 pm - Meeting with Mr. Leimone (record attached).

MEMORANDUM FOR FILES

May 15, 1981

Subject: Chairman of Interim Committee--Informal Discussion Between the Managing Director and Executive Directors

The Managing Director met with Executive Directors at 10:15 a.m. on May 14, 1981 to discuss informally the Chairmanship of the Interim Committee. Attendance at the meeting is shown in Attachment 1.

The Managing Director began by explaining that Mr. Monory had decided to resign as Chairman. After considering the list of Ministers who were members of the Interim Committee and would be present in Libreville, the Managing Director indicated that it seemed to him that a suitable name could be Mr. MacEachen. He indicated briefly the reasons why he thought Mr. MacEachen would be a good choice. He asked Executive Directors for their views, pointing out that he had not yet been in touch with Mr. MacEachen and therefore did not know whether he would be willing to be proposed for the Chairmanship.

Mr. Kafka, speaking first, said that he personally supported the suggestion of Mr. MacEachen. He thought that he would make a good Chairman and it was always useful to have a Canadian or a Swede in such positions. However, he wished to register the view that the present informal arrangements whereby the Chairman of the Interim Committee was always from a developed country and the Chairman of the Development Committee was always from a developing country should be reviewed.

Mr. Buira warmly supported Mr. MacEachen but expressed agreement with the point made by Mr. Kafka. He added that this aspect had been discussed in the G-9, where there was general agreement that in future the Chairmanships of the Development and the Interim Committees should not be reserved for any particular groups of countries. He also thought that in future there should be symmetry between the Development and the Interim Committees as to the terms for which the Chairmen should serve; in other words, the Chairman of the Interim Committee should serve for the same fixed term as the Chairman of the Development Committee.

Mr. Laske indicated support for Mr. MacEachen. He said that Mr. MacEachen seemed to be the obvious choice.

Mr. Polak, Mr. Lovato and Mr. Hirao indicated support for Mr. MacEachen, and Mr. Mentré said that he seemed to be a good choice.

Mr. Price said that before coming to the meeting he had taken the precaution of looking at the list of those who would be attending the Libreville Meeting and Mr. MacEachen's name had stood out as an obvious choice. He was speaking personally and indicated that he would contact his authorities.

Mr. Sigurdsson supported Mr. MacEachen. Later in the discussion he added that he supported Mr. Buira's comments regarding the chairmanship and suggested that the Executive Board should look into the matter.

<u>Mr. Finaish</u> said that he could support Mr. MacEachen but he felt that it was not healthy to give the impression that one committee was a rich countries' club and the other a poor countries' club. He felt that the pattern should be broken soon.

<u>Mr. Kabbaj</u> indicated that he could personally support Mr. MacEachen and endorsed the views expressed by Mr. Finaish.

<u>Mr. Narasimham</u> said that he personally could support Mr. MacEachen.

<u>Mr. Al-Hegelan</u> (Saudi Arabia), <u>Mr. Supinit</u>, <u>Mr. Coene</u>, and <u>Miss Carcovic</u> indicated that they personally could support Mr. MacEachen.

<u>Mr. Leimone</u> said that his authorities would need some time to consider the matter.

<u>Mr. Tai</u> said that he would need to consult his authorities.

<u>Mr. Kiingi</u> said that he could go along with the consensus.

<u>Mr. Prowse</u> indicated that he could support Mr. MacEachen.

The Managing Director said that he would get in touch with Mr. MacEachen as soon as possible and report back to Executive Directors.

Alan Wright
Acting Secretary

Attachment

cc: The Managing Director
The Deputy Managing Director
Mr. Nicoletopoulos
Mr. Watson
Mr. Van Houtven
Mr. Wright

May 14, 1981

(Informal Meeting on Chairmanship for Interim Committee)

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	O. Kabbaj
	L. D. D. Price
A. Buira	
	J. E. Leimone, Temporary
	L. E. J. Coene, Temporary
	M. Casey
M. Finaish	
T. Hirao	
	M. V. Carković, Temporary
	S. Al-Hegelan, Temporary
A. Kafka	
	V. Supinit
S. Kiingi	
G. Laske	
G. Lovato	
P. Mentré de Loye	T. Aulagnon
M. Narasimham	
J. J. Polak	
A. R. G. Prowse	
J. Sigurdsson	
	Tai Q.

A. Wright, Acting Secretary

Also Present: G. Nicoletopoulos

May 15, 1981

MEMORANDUM FOR FILES

Subject: Chairman of the Interim Committee--Informal Discussion between the Managing Director and Executive Directors

The Managing Director met informally with Executive Directors at 4:15 p.m. on May 14, 1981, to inform them of his conversation with Mr. MacEachen regarding the chairmanship of the Interim Committee. Attendance at the meeting is shown in the attachment.

The Managing Director said that he had informed Mr. MacEachen of the soundings he was taking and of the personal and tentative reactions of Executive Directors. Mr. MacEachen had indicated that he would be willing to accept the chairmanship. The Managing Director had informed him about the procedures for appointing a new Chairman and had also mentioned that during his consultations with Executive Directors on this matter, there had been considerable support for the idea that the term of office for the Chairman should be limited. Mr. MacEachen had indicated that he would not have any difficulty if in some form a limit on his term of office should become appropriate.

Several Executive Directors indicated their pleasure that Mr. MacEachen would be willing to accept the chairmanship. They indicated that they would be contacting their authorities. Mr. Polak added that the question of the term of office for the Chairman was not an easy one, and he hoped that it would not be prejudged.

In a response to a question from Mr. Polak, the Managing Director confirmed that the matter would not be brought up when Mr. MacEachen was nominated for the chairmanship in Libreville. He had simply warned Mr. MacEachen that the matter could come up later. He would certainly want to discuss the matter in the Executive Board in order to see whether any formal proposals should be made to the Interim Committee.

Mr. Anson then said that some Ministers had approached Sir Geoffrey Howe about the possibility of standing. This had not been the Chancellor's idea, and there had not yet been any response from him. When Mr. Anson received a reply he would communicate it.

Mr. Prowse suggested that the question of having a Vice-Chairman should also be considered.

for rm.

Alan Wright
Acting Secretary

Attachment

cc: Managing Director
Deputy Managing Director
Mr. Nicoletopoulos
Mr. Watson
Mr. Van Houtven
Mr. Wright

Attendance at Managing Director's Meeting
May 14, 1981 - 4.15 p.m

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	O. Kabbaj
J. Anson	
A. Buira	
	J. E. Leimone, Temporary
	L. E. J. Coene, Temporary
	M. Casey
M. Finaish	
	A. Nagashima
	M. V. Carković, Temporary
	S. Al-Hegelan, Temporary
A. Kafka	
	V. Supinit
S. Kiingi	
	J. U. Holst, Temporary
G. Lovato	
P. Mentré de Loye	
	A. B. Diao, Temporary
M. Narasimham	
J. J. Polak	
A. R. C. Prowse	
J. Sigurdsson	
	Tai Q.

A. Wright, Acting Secretary

Also Present: G. Nicoletopoulos, Director, Legal Department.
C. M. Watson, Personal Assistant to the Managing Director

May 20, 1981

MEMORANDUM FOR FILES

Subject: Meeting with Mr. Leimone, 4:15 p.m., Friday, May 15

The Managing Director asked Mr. Leimone to join him at 4:15 p.m. on Friday, May 15, 1981; the Deputy Managing Director and Mr. Watson were also present.

The Managing Director told Mr. Leimone that he wanted to put him fully in the picture about the procedural aspects and substance of his contacts concerning the chairmanship of the Interim Committee during the preceding day and a half.

Following the resignation of Minister Monory, his first reaction had been to call a meeting of Executive Directors to inform them of the situation and ask them to be in touch with their authorities. He had floated the name of Minister MacEachen at this meeting, suggesting that he had the right profile to gain wide acceptability in the circumstances which limited the time available for agreement to be reached. As Mr. Leimone knew, the personal and tentative reactions of Executive Directors had been very favorable; there had been no hints that other candidates might be considered desirable or possible.

After the meeting the Managing Director had telephoned Minister MacEachen to give him the flavor of the discussion, emphasizing that the Executive Directors' reactions were given only on a personal basis and that they would now be in contact with their authorities. Subsequently he called a further meeting of Executive Directors in which Mr. Leimone had again participated, and conveyed Mr. MacEachen's favorable reaction on the question of being a candidate for the chairmanship.

The Managing Director then continued that he had learned that the G-5 had concluded that Sir Geoffrey Howe would be preferable as Chairman of the Committee. This was their view, and naturally he had himself no problem at all with that. However he noted a possible problem, which was that this preference might cause difficulties on the side of developing countries. However, he himself had now stood back from the question and would be happy to learn of subsequent initiatives and reactions. In this connection he mentioned, inter alia, that Minister Monory had telephoned him; the Minister was not aware of the G-5's conclusion and confirmed that he retained his preference for Minister MacEachen. Thus the situation was perhaps a little hazy. Mr. Schulmann had telephoned him to express the preference of Germany for Sir Geoffrey Howe, after which the Managing Director had asked Mr. Casey to convey the German position to Minister MacEachen.

The Managing Director concluded by saying that he hoped this question could be resolved in a smooth fashion. He was somewhat unhappy that he had not been made aware of a strong preference for Sir Geoffrey Howe amongst the authorities of the G-5 countries at an earlier stage. He asked Mr. Leimone to convey this unhappiness to his authorities; he felt that matters might have developed more smoothly if he had been kept directly in the picture. But his own suggestion had been an attempt to identify a possible candidate with a "middle-of-the-road" profile. He asked Mr. Leimone to indicate clearly to Secretary Regan and Mr. Sprinkel that he had learned of the G-5 reaction only after sounding out Executive Directors. He had felt obliged to make some move on this question the previous day because today, Friday, was his last day in the Fund before traveling to Europe and Africa, and the last day of the Board quorum in Washington.

Mr. Leimone thanked the Managing Director for explaining matters so fully; undertook to convey this as soon as possible to his authorities; and mentioned that the U.S. Treasury officials in Washington still did not have a full report of the G-5 meeting.

C.M. Watson

cc: Managing Director
Deputy Managing Director
Mr. Van Houtven
Mr. Watson

INTERNATIONAL MONETARY FUND

August 19, 1981

TO : Mr. Volcker

FROM: Richard D. Erb

Paul

Attached is the statement I made at the opening of a two-day IMF Executive Board examination of U.S. economic policies.

Dick

August 3, 1981 - 81/150

Statement by Mr. Richard D. Erb
on
The United States
1981 Article IV Consultations
Executive Board Meeting 81/109
July 31, 1981

The United States has been a leading supporter of effective IMF surveillance as an essential complement to the Fund's balance-of-payments financing activities. We continue to believe that surveillance should play an important role in promoting a sound, stable global economy. Consequently, I welcome the first formal IMF consultation on U.S. economic policies and performance under the Reagan Administration and hope that a full and frank discussion will allay some of the concerns that have been expressed about the impact of the new U.S. economic program on the world economy.

I would also like to take this opportunity to express my appreciation to the staff for the comprehensive and balanced report prepared for this consultation and to thank them for the very useful discussions held with the U.S. authorities in June. Many of my colleagues who had not participated in Article IV discussions before were impressed with the Fund Team's knowledge of the U.S. economy and U.S. policies--current and historical.

Recent Economic Developments

The staff report describes the serious adverse developments in the U.S. economy during the past decade including low economic growth, high unemployment, and rising inflation.

In setting the stage for the discussion of current U.S. economic policies, however, attention must also be given to broader sectoral and institutional developments over the past decade. Longer-term micro, macro, and institutional developments have had far more influence on the thinking and decisions of the Reagan Administration than macroeconomic fluctuations over the last year or so. These longer-term economic and economic policy developments have also influenced the attitudes of the American public toward the role of government and the traditional economic policies pursued by successive administrations. The public's recognition of the need for a fundamental change is reflected in the broad public support for the Reagan Administration's economic program.

A review of developments points to the following central policy errors of the past which the President's economic program seeks to correct:

--Frequent shifts in fiscal and monetary policies geared to stimulating or braking short-run demand too often behaved procyclically rather than countercyclically and have curtailed longer-run growth in the economy by exacerbating uncertainties for private investors.

--Pressures from the Congress and the Executive Branch too often induced the monetary authorities to lean against rising interest rates by printing more money. More money, however, fueled inflation and inflationary expectations which in turn increased interest rates even further.

--Personal and business tax policies ignored the impact of taxes on the nature and magnitudes of saving, investment, and work effort.

--An often capricious regulatory system failed to explicitly and adequately weigh the benefits of a regulation with the costs. In addition, regulatory policies relied primarily on administrative directive rather than price-oriented incentives for influencing undesirable social and economic behavior.

--Selected price controls and interest rate ceilings have distorted the allocation of resources and delayed necessary adjustments in the U.S. economy. Energy producers, auto producers, banking institutions and the savings and loans industry are examples of industries whose long-run strategic position have been hurt by such controls.

--Foreign exchange market intervention policies:

(i) delayed necessary domestic policy adjustments,

(ii) created uncertainty about the timing and magnitudes of intervention which contributed to instability in the foreign exchange markets,

(iii) delayed necessary exchange rate adjustments, thus precipitating market instability when the exchange rates were ultimately allowed to adjust,

(iv) inhibited the development of market institutions geared to providing (directly or indirectly) stabilizing speculation.

U.S. Economic Policies and Prospects

Turning now to U.S. economic policies and prospects, the staff has done a good job of describing the economic aims and policies of the U.S. Government and the technical features of the various components of the economic program.

There has been a tendency for many commentators at home and abroad to attach labels to the economic program of the Reagan Administration. "Monetarist" and "Supply Side" are the terms most frequently used, but the analytical framework underlying the Administration's economic program is not captured by any one theory or school of economic thought. As Under Secretary of the Treasury for Monetary Affairs Sprinkel explained to this group last week, the economic policies of the Administration are formed by a consensus process involving members of the Administration, the Congress and the private sector. Although it is a diverse group, a number of central concepts emerged which have shaped the U.S. economic program.

First, and reflecting a growing national mood, the economic policies of the Reagan Administration are based on a belief that economic growth is necessary for increasing social welfare, political stability and international security. The various no-growth, zero risk arguments voiced during the last decade have not prevailed, and greater emphasis is being given to work, saving, investment, and risk taking.

Second, there exists a commonly shared view that economic decisions should be decentralized and made by the individuals and institutions which are in the best position to make the decisions affecting their economic welfare. In this regard, well functioning markets in which prices accurately reflect demand and supply are of critical importance.

Third, given the pervasive impact of government policies on the decisions of workers, consumers, and producers, there is a strongly held belief that government has a responsibility to manage those policies in a stable and predictable manner rather than attempting to fine tune policies. There is a high degree of respect for what is not known about the inner workings of the U.S. economy, its dynamics over time, and its interaction with other economies.

Fourth, there is a strongly held view within the Administration that the United States economy must once again become a source of international economic growth and stability. The dollar remains the central international currency and the U.S. economy remains the largest, most open economy in the world. Thus, price stability and stable but vigorous economic growth in the United States will benefit other countries in a variety of ways including the following:

--Monetary and price stability on the domestic front will go a long way towards permanently restoring confidence in the dollar.

--Monetary and price stability in the U.S. will contribute to stability in international as well as domestic financial markets.

--A more stable domestic growth rate will reduce the volatility of U.S. import flows and thus contribute to economic stability in other countries, especially developing countries.

--A higher domestic growth rate will provide larger market opportunities for foreign producers.

--A more dynamic and innovative U.S. economy will provide more diversified market opportunities for foreign producers and better domestic job opportunities for those whose jobs are affected by foreign competition, thus easing protectionist pressures.

--Price stability will eliminate the erosion in the real value of development assistance caused by inflation.

--Higher domestic economic growth will increase the economic base underpinning development assistance programs.

Appraisal of U.S. Policies

Since the specific elements of the President's economic program are examined in detail in the staff's report, I will not describe them. As noted in the report, and as frequently stated by U.S. officials, all of the elements are interrelated and mutually reinforcing. This approach recognizes that the problems of inflation, unemployment and declining productivity growth also are interrelated and mutually reinforcing.

Without tax cuts to encourage investment, without personal tax cuts to encourage total personal savings and a shift in savings from unproductive tax hedges towards productive investments, without a reduction in the relative size of government and the budget deficit over time, without regulatory reform, and without the elimination of price controls and interest rate ceilings, continued unemployment and declining productivity growth would ultimately undermine the efforts to reduce inflation. In short, the Administration's program is based on the premise that the fight against inflation not only requires a reduction in money growth but also a simultaneous increase in investment and a reallocation of resources within the economy from non-productive to productive sectors. In this important sense, the program is a significant break from past efforts to reduce inflation and increase employment and productivity.

In the past, the usual recipe for fighting inflation called for fiscal and monetary demand restraint sufficient to induce slack in the economy to ease wage and price pressures but not so much slack as to undermine the program politically. This strategy that became known as "gradualism" required a degree of control over the level and time path of aggregate demand that eludes most governments. More importantly, by relying on reductions in aggregate demand, the "gradualist" approach discourages investment and also does nothing to encourage shifts in the allocation of labor and capital among sectors of the economy. Lower levels of investment and rigidities in the allocation of labor and capital among sectors of the economy in turn depress productivity growth and employment growth. The lack of productivity growth makes it more difficult to reduce inflation and the lack of employment growth generates social and political problems.

The Fund staff report seems to be suggesting a third approach. The staff begins with the premise that "Because inflationary expectations have become firmly entrenched, visible progress in reducing price and wage inflation is likely to require, for a time, a significant degree of slack in product and labor market." While endorsing the policy of monetary restraint, and the proposals for reductions in government expenditure and tax cuts to improve incentives, the staff would like to see the budget deficit cut more rapidly, possibly by introducing a consumption tax.

The staff's concern about the size of the budget deficit apparently reflects the view that the deficit will create pressures for still higher interest rates and/or demands for an easing of monetary policy. I can assure you that the U.S. is determined to reduce the budget deficit and takes the goal of a balanced budget by 1984 very seriously. Nor will the Administration press for higher money growth.

However, we do not believe that a more rapid reduction is feasible or desirable. Experience strongly suggests that increased tax revenues (from deferring the tax cut or imposing a consumption tax) would be spent. The end result would be that we would have sacrificed the needed incentives to work, save and invest while contributing little to reducing the deficit. Thus, a more rapid reduction in the deficit is likely to result in an even lower economic growth rate over the next year or two than the Fund staff forecasts for the Administration's program, which in turn is lower than the Administration's own real output forecast.

The Reagan Administration strategy thus differs fundamentally from the traditional "gradualist" and Fund approaches, both of which emphasize, in varying degrees, restraints on effective demand. The Reagan strategy, while limiting money growth, places equal emphasis on reallocation of resources to productive sectors to increase productivity, lower production costs, and increase factor supplies, including labor. Such shifts will augment monetary policy by contributing to a reduction in inflation.

Many foreign critics of U.S. economic policies seem to be closer to the Fund staff's policy alternative. As the staff paper notes, "the questions other countries have raised on the mix of U.S. financial policies have appropriately focused on whether fiscal policy should be tightened rather than on whether monetary policy should be eased." Underlying this view is a perception that a more rapid decline in the budget deficit would lower current and future interest rate levels, and thus reduce the exchange market pressures which allegedly force other countries to pursue higher interest rate policies.

However, suppose the U.S. budget deficit could be reduced more quickly. The effect on interest rates would depend on the impact of the deficit reduction on savings rates, the demand for credit, and inflationary expectations. If tax rate increases caused savings rates to fall, interest rates would tend to remain high. If overall credit demand and employment declined sharply, inflationary expectations and interest rates would probably remain high if it were thought that political pressures would result in a policy reversal. On the other hand, if inflationary expectations did decline and thus further contribute to a decline in interest rates, other countries would probably find little relief on the exchange market front and real interest rates would be unaffected.

In short, the relationship between the budget deficit and the level of interest rates is not straightforward. Nor is there a straightforward relation between interest rates and exchange rates--a subject I had better leave to another time. At the same time, most foreign advocates of tax increases fail to take into account the detrimental impact such increases will have on U.S. growth and in turn the world economy.

With all the attention that has been focused on the impact of current U.S. interest rates on other countries, the advocates of a tighter fiscal policy have lost sight of the fact that other countries are linked to the U.S. economy through the flows of goods, services, and raw materials. Thus, if the budget deficit were more quickly reduced with tax increases, lower U.S. economic growth would result in lower export growth in the industrial and developing world during the near term. In such circumstances, I am sure that focus of the debate on economic policies would be quite different.

In closing, I would like to turn to the final conclusions of the staff's appraisal, which I believe best summarizes the situation all of us are in:

"It has to be recognized that pursuit by the United States of policies to cope with an inflation that has gathered great momentum inevitably will have effects--for example, on interest rates and aggregate demand--that may be regarded as undesirable by other countries. Of course, the degree to which other countries will be disturbed will vary, depending on their views about the pace at which inflation ought to be reduced and the policies best employed for that purpose. What other countries should be able to expect from the United States is a steadfast and consistent application of its anti-inflation program, which would enable them to develop their own policies with some certainty about the external environment."

Removal Notice

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to internal or confidential information.

Citation Information

Document Type: Board of Governors

Number of Pages Removed: 32

Citations: Restricted: Memorandum from Ted Truman to Chairman Volcker, "Background Material for November 7 Session with Mr. de Larosiere, et.al.," November 6, 1980.

THE FIRST NATIONAL BANK OF BOSTON

RICHARD D. HILL
Chairman of the Board

September 20, 1978

Honorable G. William Miller, Chairman
Board of Governors
  of the Federal Reserve System
21st and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Bill:

I am delighted to know that you will join us for cocktails prior to dinner Sunday evening. As you know, we will gather in the Chandelier Room of the Sheraton Carlton Hotel at 7:30 and I would guess that most of our guests will have arrived by 7:45.

Kindest regards.

Sincerely

Di

BOSTON, MASSACHUSETTS 02110 • TEL. (617) 434-2180

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THE FIRST NATIONAL BANK OF BOSTON

RICHARD D. HILL
Chairman of the Board

September 5, 1978

The Honorable G. William Miller
Chairman
Board of Governors of the Federal Reserve System
21st and Constitution Avenue, N.W.
Washington, D.C. 20051

#2273

Dear Bill:

For your convenience, I am reconfirming arrangements for our Dinner during the IMF Meetings in Washington on Sunday evening, September 24. Dinner will be in the Chandelier Room of the Sheraton-Carlton Hotel (not to be confused with the Sheraton-Park Hotel) beginning with Cocktails at 7:30 p.m.

Transportation to the Sheraton-Carlton Hotel will be provided, for those wishing it, following the Reception given annually by the Chairman of the IMF Meetings at the Shoreham Americana Hotel. Drivers with limousines identified in the name of The First National Bank of Boston will be standing by the main entrance of the Shoreham Americana Hotel between the hours of 7:15 p.m. and 7:45 p.m.

Should you have any questions, we can be reached at our Headquarters Suite No. I-140 located in the Wardman Tower of the Sheraton-Park, by phoning 265-2000.

We look forward with much pleasure to having you with us.

Very truly yours

Dic

Call — regretted
9/15/78
cm

P. S. I thought you would be interested in having a list of those who will be joining us for dinner.

The First National Bank of Boston
Dinner, Sunday, September 24, 1978
Sheraton-Carlton Hotel
Washington, D.C.

Guest List - Preliminary

AUSTRALIA

Mr. Mac Brunckhorst
Managing Director
Australia and New Zealand Banking Group, Ltd.
351 Collins Street
Melbourne

Mr. D. N. Sanders
Deputy Governor
Reserve Bank of Australia
65 Martin Place
Sydney

BOTSWANA

Mr. Baledzi Gaolathe
Permanent Secretary Finance and Development Planning
Private Bag 008
Gaborone

Mr. Brenton C. Leavitt
Governor
Bank of Botswana
P.O. Box 712
Gaborone

Mr. Quet K. J. Masire
The Vice President and Minister of Finance
Office of the Vice President
Gaborone

CANADA

Mr. William Mulholland
President
Bank of Montreal
129 St. James Street
Montreal

COLOMBIA

Dr. Jorge Mejia Salazar
President
Banco de Bogota
Carrera 10a No. 14-33
Bogota

COSTA RICA

Mr. Herman Saenz Jimenez
Ministro de Hacienda
Gobierno de la Republica de Costa Rica
San Jose

EGYPT

Mr. Addel Moneim Roushdy
Chairman
National Bank of Egypt
24 Sherif Pasha Street
Cairo

FRANCE

Mr. Marc Vienot
General Manager
Societe Generale
29 Blvd. Haussmann
75009 Paris

FEDERAL REPUBLIC OF GERMANY

Mr. F. Wilhelm Christians
Board of Management
Deutsche Bank A.G.
Duesseldorf

Dr. H. Fridrichs
Chairman
Dresdner Bank
Frankfurt/Main

Dr. Hans Ludwig Hennemann
Board of Management
Bank fur Gemeinwirtschaft
Frankfurt/Main

HONG KONG

Mr. Philip Haddon-Cave, Financial Secretary
Government of Hong Kong
Colonial Secretariat
Central Government Offices
Main and East Wings
Lower Albert Road

IVORY COAST

Dr. K. D. Fordwor
President
African Development Bank
B.P. 1387
Abidjan

Mr. Leon Naka
Director General
Caisse Autonome D'Amortissement
Abidjan

JAPAN

Mr. Masaru Hayami
Executive Director
The Bank of Japan
2-2-1 Nihonbashi HongoKucho
Chuo-Ku, Tokyo

Mr. Joji Itakura
President
Mitsui Bank Ltd.
1-2 Yurakucho, 1-chome
Chiyoda-ku, Tokyo 100

JORDAN

Dr. Mohammed Nabulsi
Governor
Central Bank of Jordan
P.O. Box 37
Amman

Mr. Abdel-Majid Shoman
Chairman
Arab Bank Ltd.
P.O. Box 68
Amman

KOREA

Mr. Byong-Hyun Shin
Governor
Bank of Korea
110-3 Ku Namdaemonn-ro
ChoongKu, Seoul

LIBERIA

Mr. Charles Greene
Governor
National Bank of Liberia
P.O. Box 2048
Monrovia

MALAYSIA

Ismail bin Mohamed Ali
Governor
Bank Negara Malaysia
P.O. Box 922
Kuala Lumpur, 01-02

NIGERIA

Mr. O. Vincent
Governor
Central Bank of Nigeria
Tinubu Square
P.M.B. 12194
Lagos

PANAMA

Dr. Nicolas Ardito Barletta
Minister of Planning & Economic Policy
Republic of Panama
Panama City

THE PHILIPPINES

Gregorio S. Licaros
Governor
Central Bank of The Philippines
Roxas Boulevard
Manila

SENEGAL

Mr. Louis Alexandrenne
Minister of Planning & Cooperation
Dakar

SINGAPORE

Mr. Michael Wong Pakshong
Managing Director
The Monetary Authority of Singapore
SIA Building
77 Robinson Road

SWEDEN

Mr. Alf Akerman
Managing Director
Skandinaviska Enskilda Banken
Gothenberg

SWITZERLAND

Mr. R.T.P. Hall
General Manager
Bank of International Settlements
Basle

TOGO

Mr. Edouard Johnson
President
Administrateur de Societies
Sotogel, Johnson Brothers, Ltd.
Lomo

UNITED STATES

The Honorable G. William Miller
Chairman
Board of Governors of the Federal Reserve System
21st and Constitution Avenue, N.W.
Washington, D.C. 20051

Mr. Festus G. Mogae
Alternate Executive Director
International Monetary Fund
Room 804
700 19th Street, N. W.
Washington, D.C. 20431

ITT World Communications

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1978 SEP -5 AM 11:05

RECEIVED
OFFICE OF THE CHAIRMAN

1109 EDT*
440043 FEDR UI
885001 BKEN L G

9/5/78

1611 4.9.78

TO MR G WILLIAM MILLER
CHAIRMAN OFEE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON DC =

THANK YOU FOR YOUR INVITATION TO LUNCH ON MONDAY 25TH SEPTEMBER
I MUCH LOOK FORWARD TO SEEING YOU

KIND REGARDS
GORDNEEEEE

GORDON RICHARDSON

*
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1109 EDT*
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WASHINGTON DC =

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GORDNEEEEE

GORDON RICHARDSON

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440043 FEDR UI
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 21, 1978

To Chairman Miller

From Charles J. Siegman CJS

Subject: Background Material for Visits by Foreign Officials during 1978 IMF/IBRD Meetings

The attached Tabs, itemized below, contain brief staff notes that you may find useful in connection with the visits by foreign officials during this period of international meetings. Biographic sketches of the visitors are also included.

DATE	OFFICIAL VISITOR	TAB
Friday, September 22		
Luncheon	Yugoslavia's Finance Minister Petar Kostic, National Bank of Yugoslavia Governor Ksente Bogoev, and Ambassador Dimce Belovski	A
3:00 p.m.	Republic of China's Finance Minister Philip C.C. Chang and Central Bank of Republic of China Governor Kuo-hua Yü	B
4:00 p.m.	Chiaki Nishiyama Japan	C
Sunday, September 24		
10:00 a.m.	Japan's Minister of Finance Tatsuo Murayama (joining Secretary Blumenthal at Sheraton Park)	D
Monday, September 25		
Luncheon	Governor Gordon Richardson	E
3:30 p.m.	Mexico's Secretary of Finance and Public Credit David IBARRA Munoz and Bank of Mexico Director General Gustano ROMERO Kolbeck (joining Secretary Blumenthal at Sheraton Park)	F
4:30 p.m.	Saudi Arabia's Minister of Finance and National Economy Muhammad ibn 'Ali Aba al-Khayl (joining Secretary Blumenthal at Sheraton Park)	G

Tuesday, September 26

Luncheon	Italy's Minister of Treasury Filippo Maria Pandolfi, Bank of Italy Governor Baffi and Ambassador Paolo PANSA CEDRONIO	H
4:00 p.m.	Israel's Minister of Finance Simcha Ehrlich and Bank of Israel Governor Arnon Gafni	I
4:30 p.m.	Australia's Minister of Finance Eric Robinson	J

Wednesday, September 27

4:45 p.m. 4:00 pm	OECD Secretary General Emile van Lennep Mr. Maekawa	K

Thursday, September 28

10:00 a.m.	EC Vice President François-Xavier Ortoli	L

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Citation Information

Document Type: Board of Governors

Number of Pages Removed: 1

Citations: Confidential: Telegram to G.W. Miller from Goesta Bohman, September 11, 1978.

August 2, 1978

Dear Minister Bohman:

Thank you for advising me of the proposed meeting of the Group of Ten Finance Ministers and Central Bank Governors prior to the forthcoming Interim Committee meeting in Washington. I shall be pleased to attend the meeting on Saturday afternoon, September 23.

Best wishes.

Sincerely,

The Honorable Goesta Bohman
Chairman of the Group of Ten
Ministry of Economic Affairs
Stockholm, Sweden

GWM:NB:ja

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Citation Information

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Number of Pages Removed: 2

Citations:

Confidential: Telegram to G.W. Miller from Goesta Bohman, July 21, 1978.

Confidential: Telegram to G.W. Miller from Goesta Bohman, September 11, 1978.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 22, 1978

To Members of the Board

From Charles J. Siegman

Subject: Background Material for September 25 Luncheon with Bank of England Governor Richardson

Attached is a brief note on the current economic situation in the United Kingdom that you may find useful in connection with the luncheon that the Chairman is hosting on Monday for Bank of England Governor Gordon Richardson. A biographic profile of Governor Richardson is also enclosed.

Attachments 2.

cc: Mr. Truman

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Citation Information

Document Type: Board of Governors

Number of Pages Removed: 2

Citations: Confidential: Biographical profile, Gordon William Richardson, September 9, 1977.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 19, 1978

To Mr. Promisel

Subject: The Economic Situation in the United Kingdom

From David Howard

There has been a pickup in economic activity in the United Kingdom in recent months. In the second quarter of 1978, industrial production was about 4 per cent (s.a.a.r.) higher than in the final quarter of 1977. GDP in the first quarter of 1978 was 3.3 per cent (s.a.a.r.) higher than in the previous quarter. Consumption spending has been particularly strong.

British inflation rates -- as measured by 12-month comparisons -- are in single digits. Wages, on the other hand, increased by over 15 per cent between June 1977 and June 1978 -- roughly double the rate of increase in consumer prices during that period. In July, the U.K. government announced its policy on wages for the subsequent 12 months. The policy calls for a limit of 5 per cent on wage increases during the period, with some provision for flexibility. The policy is nonstatutory and will be enforced primarily through the government's influence in public sector wage increases and its ability to withhold government contracts and assistance from private sector firms that do not adhere to the policy. (The policy is similar to the one in effect during the previous 12-month period except that the wage norm is 5 per cent rather than 10 per cent.)

The British current account has fluctuated sharply this year and recorded a slight deficit (s.a.) during the first 8 months of the year. Recently British authorities have been engaged in a program of both early repayment and new borrowing in order to smooth out the public sector's external repayment schedule. Since late 1977, some $3.5 billion in early repayments have been either made or announced, with $2 billion going to the IMF. ($1 billion was repaid to the IMF in April 1978; an additional $1 billion repayment has been announced, but the repayment date has not yet been determined.) During the same time period, about $1.2 billion in new borrowings have been undertaken, including a $350 million New York bond issue. The United Kingdom remains eligible to draw under the IMF standby arrangement, but no further drawings are expected.

In August, the Bank of England announced an extension of its supplementary special deposit scheme (the "corset"), which specifies a limit on the growth of banks' interest-bearing liabilities. The scheme imposes penalties on individual banks that exceed the limit. This measure is intended to keep monetary growth within the official target range of 8-12 per cent for sterling-denominated M3 for the year ending in April 1979. Between April 1978 and August 1978, sterling M3 rose 3.8 per cent (s.a.a.r.). (For the previous 12-month period, the target was 9-13 per cent, but actual sterling M3 growth was nearly 16 per cent.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 25, 1978

To: Chairman Miller

From: C. Siegman CSS

The attached note by Yves Maroni, who has just returned from a study visit to Mexico, reports on some impressions he gathered on looming problems in the Mexican economy. You may want to note the points raised by Mr. Maroni in connection with this afternoon's appointment with Mexican officials.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 25, 1978

To Mr. Truman

Subject: Difficulties Looming in Mexico

From Yves Maroni YM

While in Mexico, last week, I heard disturbing comments about the country's situation and short-term prospects.

There is a strong likelihood that some of the performance targets specified in Mexico's agreement with the IMF for the end of the year will not be met. The limit on the public sector deficit will almost certainly be breached, perhaps by a wide margin. The target for net international reserves will probably be missed as well.

There has apparently been some capital flight, and dollarization of the banking system is again increasing. Wage increases have been exceeding the guidelines set early this year. Economic recovery is surpassing expectations and bottlenecks are becoming widespread.

Within the Mexican Government, internal battles are being waged on fiscal policy and wage policy, and the outcome, as between austerity and expansion, is uncertain. On exchange rate policy, a minority believes that a crawling peg would not unsettle confidence, but the majority fears that the slightest movement in the peso-dollar rate would have damaging psychological effects.

The only bright spot is that external borrowings will be held below the ceiling permitted by the IMF agreement. The U.S. banks operating in Mexico are aware of the economic and financial difficulties looming ahead for the country, but they do not appear to be worried about them.

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Citation Information

Document Type: Treasury

Number of Pages Removed: 7

Citations: Limited Official Use: Briefing Paper, "Meeting with Finance Ministers on Improving the International Arrangement on Export Credits," Murray Ryss, September 25, 1978.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

September 14, 1978

Dear Mr. Minister:

On several occasions I have tried to emphasize the importance of taking action this year to avoid the escalation of competition with respect to official export credits. An export credit race can only be wasteful and lead to undesirable tensions between our governments. I cannot stress too strongly the need to act.

To facilitate negotiations on this important subject, I would like to offer specific proposals designed to reduce the subsidy aspects in the provision of officially supported export credits. As you know, the experts will meet in October to review the International Arrangement on Guidelines for Officially Supported Export Credits. Our experience in earlier negotiations clearly indicates that experts cannot make the political decisions necessary to achieve substantial improvement in the Arrangement. For this reason, I am raising the key issues with you, the Ministers of Finance of Canada and Japan, the Minister of Economy of France, the Chancellor of the Exchequer, and the Vice President for External Relations of the Commission of the European Communities.

My proposals to help achieve greater discipline and equitable terms in our official export credit financing practices are:

1. (a) Revise the interest rate matrix in paragraph 3 of the Arrangement (which has been in effect since July 1, 1976) by increasing interest rates by one-half to three-fourths of a percentage point. The new matrix of minimum interest rates would then read:

	Number of Years in Maximum Repayment Term		
Classification of Country	2-5 years	Over 5 to 8.5 years	Over 8.5 to 10 years
Relatively Rich	8.25%	8.50%	not applicable
Intermediate	8.00%	8.25%	not applicable
Relatively Poor	7.75%	8.00%	8.25%

(b) Where a guarantee and/or insurance is provided for a transaction together with exchange risk insurance, the financing package must conform to the terms of the Arrangement.

Attachment "A"

2. Revise paragraph 5 of the Arrangement to read: Participants will not finance, guarantee or insure local costs related to those export credits to which this Arrangement applies.

3. Incorporate the sectors presently excluded from the Arrangement as follows:

(a) Agricultural Commodities - the provisions of the Arrangement would apply where the repayment term is more than three years. All countries would attempt to avoid non-aid financing of agricultural commodity exports with repayment terms in excess of present practices. If a Grains Agreement is negotiated, the terms of that Agreement would take precedence over this Arrangement with respect to the financing of reserve stocks.

(b) Aircraft - the provisions of the Arrangement would apply to officially supported sales and lease transactions except that:

The maximum repayment term shall be 10 years for the sale or lease of large commercial turbo-jet aircraft with a minimum cash payment of 15 percent and a minimum interest rate of 8.50 percent. Furthermore, Participants will not provide special inducements, such as landing rights, in connection with the sale or lease of aircraft.

(c) Nuclear Power Plants - the provisions of the Arrangement would apply except as follows:

(1) The maximum Repayment Term shall be 10 years for relatively rich countries, 12 years for intermediate countries and 15 years for relatively poor countries;

(2) the minimum Interest Rate on credits to relatively rich and intermediate countries where the Repayment Term is over 8.5 years shall be 8.50 percent; and

(3) the minimum Interest Rate on credits to relatively poor countries where the Repayment Term is over 10 years shall be 8.50 percent.

(d) Ships - the maximum Repayment Term for LNG tankers shall be 15 years. Otherwise, the terms of the Arrangement would apply, except to those Participants that have adopted the OECD Understanding on Export Credits for Ships.

4. The use of mixed credit or parallel financing practices would be moderated by the following changes:

(a) Participants will not provide a tied aid credit (or a mixed credit) with a grant element of less than 25 percent to relatively rich countries, intermediate countries, or to advanced developing countries. (Advanced developing countries include such countries as Brazil, Mexico, Algeria, Taiwan, Korea and Malaysia.)

(b) If a Participant intends to support a tied aid credit (or a mixed credit) with a grant element of less than 25 percent to any relatively poor country other than advanced developing countries, the Participant shall give prior notification in accordance with the procedure set forth in paragraph 9(b)(1).

I hope it will be possible for us to discuss the basic thrust of this proposal and reach a common understanding during the Bank/Fund meetings at the end of September on what might form the basis of an improved Arrangement.

May I have your views?

Best regards,

Sincerely,

/s/

W. Michael Blumenthal

His Excellency
Hans Matthofer
Minister of Finance
Bonn, Germany

Removal Notice

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Citation Information

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Limited Official Use: Issue Paper, Bank/Fund Meeting 1978, "International Arrangement on Officially Supported Export Credits," Murray Ryss, September 18, 1978.

Limited Official Use: 1978 IMF/IBRD Annual Meetings, Consolidated Schedule for Secretary Blumenthal, September 20, 1978.

September 15, 1978

Talking Points on the International Monetary Fund

1. The IMF is an international financial organization with 134 members including all of the major western countries (except Switzerland) and two East European countries (Yugoslavia and Romania).

a. Its purposes include the promotion of international monetary cooperation, the facilitation of the expansion and balanced growth of international trade, the promotion of high levels of employment, and the promotion of exchange stability.

b. In accomplishing these objectives it makes loans (generally 3-5 years) to members with balance-of-payments problems to assist them in financing their deficits while the necessary corrective measures are taken.

c. It also advises countries on appropriate policies conducive to domestic and global economic stability.

2. In effect the IMF operates like a rudimentary world central bank.

3. One sensitive issue in Congress is the IMF's record on human rights.

a. The stabilization policies recommended by the IMF in connection with its loans almost invariably impose hardship over the short run on some within the borrowing country. This is the harsh reality of adjustment programs. In fact, without the IMF's financial assistance, the measures adopted by the country involved would have to be even tougher.

b. Because the IMF's funds are drawn from all of its members it is not feasible to control which countries might use the dollars in the U.S. subscription.

c. Because the objective of the IMF is international monetary cooperation it is essentially self-defeating to try to deny funds to countries whose record on human rights is less than laudatory.

4. The resources of the IMF come from subscriptions (quotas) of members.

a. The U.S. quota is SDR 8405 million (about $10.5 billion.)

b. Total IMF quotas are SDR 39 billion (about $49 billion).

c. Consideration is now being given to an expansion of IMF quotas to enable the IMF to have adequate resources to fulfill its role over the next 5-7 years. (Quota reviews normally occur every five years; once completed, they may take 1-2 years to be ratified.)

d. The IMF sometimes augments its resources by borrowing, e.g., the General Arrangements to Borrow (to help finance loans to the G-10 countries), the Oil Facility (drawing funds from OPEC primarily to help finance the large deficits in the first several years after the sharp increase in the price of oil) and the Witteveen Facility (to assist countries with severe balance-of-payments problems).

e. The IMF has also been selling gold (25 million ounces over four years) and using the profits (the difference between the market price and SDR 35 per ounce) to make low interest loans to its poorest member countries.

5. In connection with Congressional approval of U.S. participation in the Witteveen Facility, a question has arisen about the budgetary treatment of U.S. contributions (loans) to the Witteveen Facility and of U.S. quota subscriptions. It would be desirable to handle such transactions outside of the budget, since they are an exchange of assets. (When we make a loan to the IMF we acquire an asset that adds to our international reserves and that we can use if we need to borrow foreign currencies from the Fund.) Opposition to this approach stems from a number of sources: (a) aid opponents, (b) proponents of comprehensive budgets, (c) proponents of tighter Congressional control. Each of these points can be argued, but the Administration appears to have lost them with regard to the Witteveen Facility legislation. However, the issue as far as future quota subscriptions has been left open for the moment.

6. It should be noted that the United States has drawn on (borrowed from) the IMF and might do so again as a bridging action to strengthen the dollar.

7. The IMF also has a role in the functioning of the international monetary system, trying to ensure that countries do not adopt predatory policies and do follow generally accepted standards of international financial behavior.

8. In connection with the IMF's responsibility with regard to international liquidity, its members can decide to allocate SDR that can

be used to finance payments imbalances. Consideration is now being given to a resumption of SDR allocations. The only allocations were SDR 9.3 billion in 1970-72. The United States holds SDR 2.3 billion (about $2.8 billion).

9. At a time when the Europeans are thinking of setting up a new "European Monetary System" that may diminish the role and importance of the IMF, it is important that the IMF remain a strong global institution.

10. It is useful to note that the weighted voting procedure in the IMF has contributed to its strength as an international organization and to an effective U.S. role in the IMF. (The U.S. voting share is just under 20 per cent which means we can block most major decisions.)

11. The IMF is not, and should not be, designed to bail out banks (with official funds) -- a frequent concern of some Senators, e.g., Church.

12. The IMF is also not an aid institution, which leads to some of the criticism of it on human rights gounds.

13. Congress has been concerned about relatively high IMF salaries. They are relatively high by Washington standards, but the IMF argues that such salaries are necessary to attract the right international cross-section of staff members. This whole issue is now under intensive discussion in the IMF and IBRD (World Bank).

September 23, 1978

Suggested Talking Points on the Euro-Currency Market Proposals

I. Proposal to reaffirm the standstill on placements by G-10 countries of official reserves in Euro-markets

1. This is primarily a matter for the central banks and governments of the other G-10 countries. (Note: we should not be put in a position of telling countries where they can or cannot put their dollar holdings.)

2. We understand that the question of reaffirming the standstill is under active discussion among the central banks represented at the BIS. We are prepared to leave this matter in the hands of this group.

3. Reaffirmation of the standstill agreement would have a marginal effect on the dollar to the extent that it led to some shifting of official dollar deposits from the Euro-market to the U.S. market and this led to an increase in Euro-dollar rates. The action would be consistent with the Federal Reserve Board's recent action reducing to zero the reserve requirement on member banks' borrowings in the Euro-market.

4. Reaffirmation of the standstill agreement would have a marginal effect on the size of the Euro-market to the extent that a withdrawal of official dollar deposits was not matched by a reflow from other sources; this might be cosmetically advantageous -- G-10 countries would seen as more responsible in their reserve management not pursuing higher yields at all costs. (Note: this fear of a shrinking of the Euro-market has been the reason why the Bank of England traditionally has opposed a reaffirmation of the standstill agreement.)

5. We should realize that the amounts involved are relatively small. (Note: we do not know how much of G-10 countries reserves are held in the Euro-market, but such activity is probably not widespread aside from the

United Kingdom, Italy and France -- these countries borrow in the Euro-market and this leads them to hold some of their reserves there. The growth of official deposits in the Euro-market in redent years has been primarily the result of the activities of the non-G-10 countries, especially OPEC, who are attracted both by the somewhat higher yields and the anonymity of the market.)

II. <u>Proposals to increase the "transparency" of the Euro-market</u>

1. As far as proposals to increase the scope of reports on Euro-currency assets and liabilities,

a. the BIS is actively pursuing efforts to increase the coverage of its quarterly statistics to include (non-U.S.) banks in off-shore banking centers; all branches of U.S. banks are now covered;

b. banks in the Cayman Islands are now covered (confidential); Hong Kong is expected soon to supply such data; Singapore will then follow; it is expected that the Bahamas will also; next Panama and Bahrain can be approached; (See attached notes by Bob Gemmill.)

c. national banking authorities should be encouraged to collect information on their banks' worldwide activities, following the example of U.S. authorities.

2. As far as the prudential aspects of Euro-banking are concerned,

a. there may be scope for further discussions among bank supervisors regarding ways to prevent excessive leveraging by banks -- such discussions are underway under the auspices of the BIS;

b. we are skeptical of the feasibility or usefulness of setting up an elaborate system for the recording of Euro-credits borrower by borrower.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 14, 1978

To Governor Wallich

From Robert F. Gemmill RFG.

Subject: Conversation with Dealtry concerning expanded coverage of quarterly BIS figures on assets and liabilities

I asked Dealtry for an update on the status of the efforts to expand coverage of the quarterly BIS figures.

He reported that the BIS will very shortly be publishing figures for the first quarter of 1978. These have been delayed because of an overhaul of the French data. The first quarter will also include figures for Austria, Denmark and Ireland.

Dealtry has heard nothing more from Hong Kong. The latest word he had was that they were expecting to collect data as of year-end 1978. He said he might check with them to confirm that this was still the plan, and I encouraged him in this. If data for Hong Kong are available, Singapore will also supply data (which are already being collected, but will not be released to the BIS before Hong Kong data).

The Bahamas will not fall into line so long as the Far Eastern centers are not supplying data, but Dealtry expects that Bahamas would cooperate once Hong Kong and Singapore do.

cc: Messrs. Truman, Mills, Dahl, Ms. Auerback
I.B. Section

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Citation Information

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Citations: Confidential: Memorandum from Robert F. Gemmill to Under Secretary Solomon, "Prospects for expanded coverage of BIS data on international lending," June 22, 1978.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
ASSISTANT SECRETARY
FOR INTERNATIONAL AFFAIRS

9/20

September 18, 1978

MEMORANDUM FOR: Chairman G. William Miller (Alt. Gov. Designee)
Under Secretary Richard N. Cooper
Administrator John J. Gilligan
Under Secretary Sidney Harman
President and Chairman John L. Moore, Jr.
Chairman Charles L. Schultze
Special Representative Robert S. Strauss
President Paul A. Volcker

FROM: WCG William C. Grant
Secretary, U.S. Delegation

SUBJECT: 1978 Annual Meetings of the IMF and IBRD

This is to inform you that Secretary Blumenthal requests your participation as a member of the U.S. Delegation to the 1978 Annual Meetings of the Bank and Fund being held from September 25 to September 28 at the Sheraton Park Hotel in Washington. Other members of the Delegation whom the Secretary has selected, including those from your agency, are shown in the attached Delegation List.

The U.S. Delegation will again occupy the "C" Wing of the 4th floor of the Sheraton Park Hotel (plan attached). Private offices are available for the U.S. Governor, the Alternate Governors, the Under Secretary of the Treasury for Monetary Affairs, and the Assistant Secretary for International Affairs and their secretaries. Other offices may be used by the other U.S. delegates as needed. Support will again be provided by a small secretariat to handle documents, mail, invitations and inquiries and provide other services.

The Delegation suite will be open from Sunday noon until the close of the meetings. Unless badges have been distributed earlier, they can be picked up at the Delegation suite.

Secretary Blumenthal will brief the entire Delegation Monday, September 25, at 9:00 a.m. in Meeting Room No. 2 of the Sheraton Park Hotel. The meetings begin at 10:00 a.m.

Delegation handbooks will be distributed to all members, and copies of briefing material on Multilateral Issues will be distributed to each participating agency before the meetings.

The U.S. Governor will host a reception on Tuesday, September 26 from 6:30 to 8:30 p.m. in the National Gallery of Art East Wing for delegates and special guests. The Chairman of the Annual Meetings, Finance Minister Tengku Razaleigh Hamzah of Malaysia, will host a reception for Governors and other participants on Sunday, September 24 from 7:00 p.m. to 9:00 p.m. at the Shoreham Americana Hotel.

Please get in touch with me (566-5378) or the Secretariat (566-2182) if you have any questions.

Attachments
(1) Delegation List
(2) Floorplan

U.S. Delegation
IMF · IBRD · IFC · IDA
Annual Meetings, September 25-28, 1978
Washington, D.C.

UNITED STATES DELEGATION

GOVERNOR

*W. Michael Blumenthal, Secretary of the Treasury

ALTERNATE GOVERNORS

Richard N. Cooper, Under Secretary of State for Economic Affairs (IBRD)

TEMPORARY ALTERNATE GOVERNORS

*Anthony M. Solomon, Under Secretary of the Treasury for Monetary Affairs

*C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs

*Sam Y. Cross, U.S. Executive Director, International Monetary Fund

*Edward R. Fried, Executive Director, International Bank for Reconstruction and Development

*John J. Gilligan, Administrator, Agency for International Development

*Henry C. Wallich, Member, Board of Governors, Federal Reserve System

CONGRESSIONAL ADVISERS

*James J. Blanchard, Member, Subcommittee on International Trade, Investment and Monetary Policy, House Committee on Banking, Finance and Urban Affairs

*Elford A. Cederberg, Member, House Committee on Appropriations

*Married

Department of the Treasury
Office of the Assistant Secretary for International Affairs

CONGRESSIONAL ADVISERS (Cont'd)

*David W. Evans, Member, Subcommittee on International Trade, Investment and Monetary Policy, House Committee on Banking, Finance and Urban Affairs

*Henry B. Gonzalez, Chairman, Subcommittee on International Development Institutions and Finance, House Committee on Banking, Finance and Urban Affairs

*Harold C. Hollenbeck, Member, Subcommittee on International Trade, Investment and Monetary Policy, House Committee on Banking, Finance and Urban Affairs

*John J. LaFalce, Member, Subcommittee on International Development Institutions and Finance, House Committee on Banking, Finance and Urban Affairs

*Matthew F. McHugh, Member, Subcommittee on Foreign Operations, House Committee on Appropriations

*Joseph G. Minish, Member, Subcommittee on International Development Institutions and Finance, House Committee on Banking, Finance and Urban Affairs

*Stephen L. Neal, Chairman, Subcommittee on International Trade, Investment and Monetary Policy, House Committee on Banking, Finance and Urban Affairs

*Jerry M. Patterson, Member, Subcommittee on International Development Institutions and Finance, House Committee on Banking, Finance and Urban Affairs

*Henry S. Reuss, Chairman, House Committee on Banking, Finance and Urban Affairs

*Edward R. Roybal, Member, Subcommittee on Foreign Operations, House Committee on Appropriations

*J. William Stanton, Member, Subcommittee on International Trade, Investment and Monetary Policy, House Committee on Banking, Finance and Urban Affairs

*Newton I. Steers, Jr., Member, Subcommittee on International Trade, Investment and Monetary Policy, House Committee on Banking, Finance and Urban Affairs

*Louis Stokes, Member, Subcommittee on Foreign Operations, House Committee on Appropriations

*C. W. Bill Young, Member, Subcommittee on Foreign Operations, House Committee on Appropriations

ADVISERS

*H. K. Allen, First Vice President and Vice Chairman of the Board, Export-Import Bank of the United States

*Robert B. Anderson, Former Secretary of the Treasury

*Joseph W. Barr, Former Secretary of the Treasury

*Daniel H. Brill, Assistant Secretary of the Treasury for Economic Policy

David Bronheim, Assistant Administrator, Agency for International Development

*John B. Connally, Former Secretary of the Treasury

*William P. Dixon, Alternate U.S. Executive Director, International Bank for Reconstruction and Development

*Henry H. Fowler, Former Secretary of the Treasury

Sidney Harman, Under Secretary of Commerce

*John G. Heimann, Comptroller of the Currency, Treasury Department

*Alan R. Holmes, Executive Vice President, Federal Reserve Bank of New York

*Robert D. Hormats, Deputy Assistant Secretary of State for Economic and Business Affairs

*Gary C. Hufbauer, Deputy Assistant Secretary of the Treasury for Trade and Investment Policy

Helen B. Junz, Deputy Assistant Secretary of the Treasury for Commodities and Natural Resources

*Julius L. Katz, Assistant Secretary of State for Economic and Business Affairs

*David M. Kennedy, Former Secretary of the Treasury

*Thomas Leddy, U.S. Alternate Executive Director, International Monetary Fund

*Charles F. Meissner, Deputy Assistant Secretary of State for International Finance and Development

ADVISERS (Cont'd)

*John L. Moore, Jr., President and Chairman of the Board, Export-Import Bank of the United States

*Arnold Nachmanoff, Deputy Assistant Secretary of the Treasury for Developing Nations

*William D. Nordhaus, Member, Council on Economic Advisors

*Henry Owen, Special Representative of the President for Economic Summits

*Charles L. Schultze, Chairman, Council of Economic Advisors

*George P. Shultz, Former Secretary of the Treasury

*William E. Simon, Former Secretary of the Treasury

John W. Snyder, Former Secretary of the Treasury

*Robert S. Strauss, Special Representative for Trade Negotiations

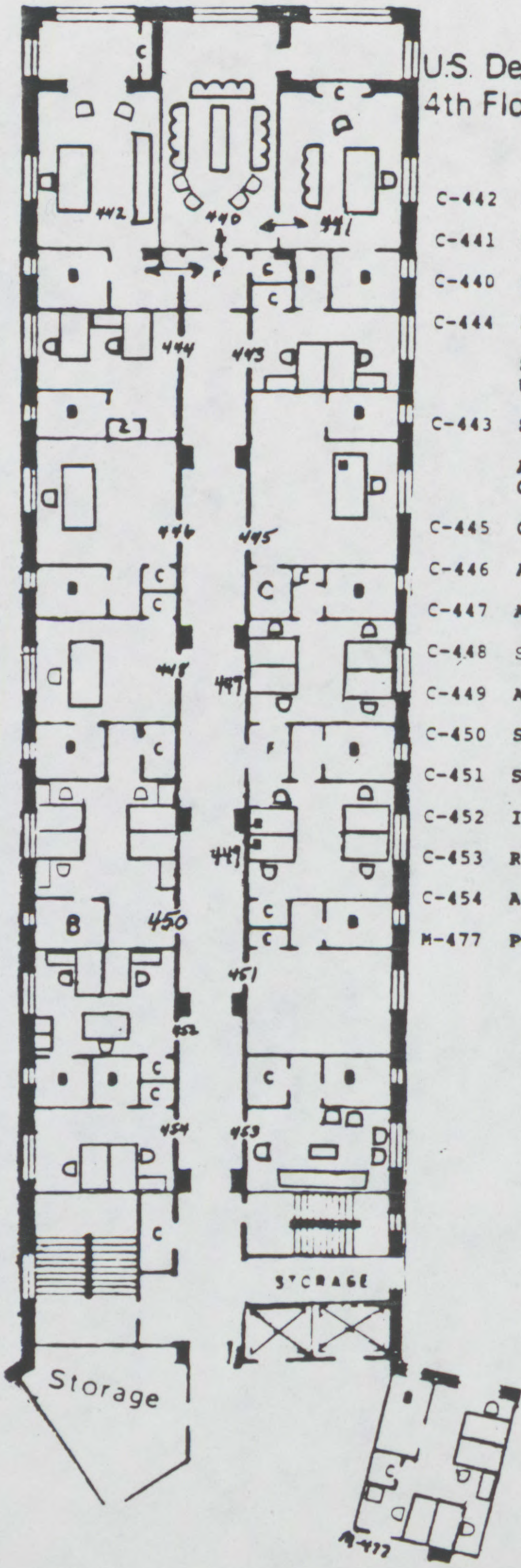
*Edwin M. Truman, Director, Division of International Finance, Board of Governors, Federal Reserve System

*Paul A. Volcker, President, Federal Reserve Bank of New York

*Frank A. Weil, Assistant Secretary of Commerce for Industry and Trade

*F. Lisle Widman, Deputy Assistant Secretary of the Treasury for International Monetary Affairs

(C) WING



U.S. Delegation Offices
4th Floor, Sheraton Park Hotel

C-442	Secretary Blumenthal
C-441	U/S Solomon
C-440	Secretary's Conference Room
C-444	Support Staff for: Secretary Blumenthal U/S Solomon
C-443	Support Staff for: A/S Bergsten Chairman Miller
C-445	Chairman Miller
C-446	A/S Bergsten
C-447	Advisers
C-448	State
C-449	Advisers
C-450	Secretarial Support
C-451	Supplies/Copy Service/Mail
C-452	I.A. Secretariat
C-453	Reception
C-454	Administration
M-477	Public Affairs

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

September 20, 1978

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1978 SEP 20 PM 12: 12
RECEIVED OFFICE OF THE CHAIRMAN

9/20

Dear Bill:

I would like for you to feel free to join me in my bilateral meetings during the Bank/Fund week. The schedule is as follows:

Friday, September 22, 1978

3:00 p.m., Secretary's Office, Treasury
Meeting with Chancellor Healey, United Kingdom

4:30 p.m., Room A-403, Sheraton Park Hotel
Meeting with Chairman Razaleigh, Malaysia

Sunday 10 am Japanese F.M.

Monday, September 25, 1978

✓ 3:30 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister Ibarra Munoz, Mexico

✓ 4:30 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister Abalkhail, Saudi Arabia

Tuesday, September 26, 1978

3:30 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister El Sayeh, Egypt

4:00 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister Yeganeh, Iran

4:30 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Commissioner of Finance Oluleye, Nigeria

Wednesday, September 27, 1978

2:30 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister Simonsen, Brazil

Wednesday, September 27, 1978 (Cont.)

4:00 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister Meuzzinouglu, Turkey

4:30 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister Silva, Peru

Thursday, September 28, 1978

2:30 p.m., Secretary's Suite, Sheraton Park Hotel
Meeting with Finance Minister Erlich, Israel
(tentative)

Would you please have someone in your office let my assistant, Richard Fisher, 566-2335, know which meetings you are likely to attend.

called 9/20/78 cm

Best regards,

Sincerely,

Mike

W. Michael Blumenthal

The Honorable
G. William Miller
Chairman
Board of Governors of the
Federal Reserve System
Constitution Avenue and 20th Street
Washington, D.C. 20551

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 21, 1978

To Board of Governors

Subject:

From Edwin M. Truman EMT

Attached for your information as background for the IMF Annual Meeting next week is a paper prepared by Tom Connors on recent IMF activities.

Thomas A. Connors
September 21, 1978

Recent Activities of the IMF

This note reviews some of the activities of the IMF since the last Annual Meetings, one year ago. Part I examines the recent experience of IMF members with IMF stabilization programs. Part II reports on a number of developments over the past year that have affected favorably the Fund's liquidity, and hence its ability to lend.

I. IMF Stabilization Programs

1. Objectives of Negotiations. IMF stabilization programs are designed to restore domestic and external balance to a country that is experiencing severe balance-of-payments adjustment problems. A country that wishes to draw on Fund resources must usually negotiate an acceptable program with the Fund.1/ The program generally calls for increased restraint on monetary and fiscal policies, and sometimes exchange rate depreciation. The overall objective is to cut back domestic demand so that resources can be reallocated toward net exports, without resorting to selective restrictions and subsidies on trade and payments.

1/ The Fund offers some types of financing to members without the requirement of a satisfactory stabilization program--for example, compensatory financing for export shortfalls. However, the non-conditional forms of IMF financing have declined substantially as a share of total IMF loan operations during the past two years.

By successfully negotiating a program with the IMF, a country becomes eligible, subject to certain conditions, to draw specified installments of IMF resources over a period of one to three years. The conditions require that a country adhere to certain quantitative policy performance criteria during the program. The criteria usually include ceilings on domestic credit expansion, on bank lending to the public sector, and on foreign borrowings of specified maturities. A floor is usually established for foreign reserves. This places a limit on the amount of exchange market intervention that can occur. Sometimes, as a pre-condition, some specified devaluation of the currency is required. The macroeconomic criteria are set at levels judged to be consistent with the achievement of the balance-of-payments, income, and price targets of the program. If the performance criteria are not met during the program, the country becomes ineligible to draw further installments until performance becomes consistent with the program. In some cases, the program may be renegotiated, or the Fund may grant a waiver of the performance requirement.

2. Severity of IMF Programs. The quantitative criteria set by the Fund often imply an abrupt change from the past policies followed by the authorities. This is understandable since misguided policies are often largely responsible for the balance-of-payments difficulties that the programs are designed to correct. As part of its stabilization

programs, the Fund also often induces countries to alter key prices in their economies. It is common, especially in the developing countries, for the authorities to set interest rates and producer and consumer prices for agricultural staples at artificially low levels. Fund guidance sometimes leads to greater reliance on market mechanisms, which usually has the effect of causing resources to be more efficiently allocated.

The Fund's use of conditionality is somewhat controversial. It has been charged that the Fund dictates conditions to countries without taking into account the political consequences of its programs. It is argued that the programs are too severe, with hardships being imposed on the populations of the countries concerned.

In June 1978, the IMF Executive Directors reviewed Fund conditionality for the first time in ten years. There was a broad consensus among the Executive Directors that conditionality was necessary to safeguard adequately the Fund's resources. Most felt that the apparent 'harshness' was related to the fact that countries wait too long before going to the Fund for assistance, and consequently the adjustment problems have already grown to large proportions. It was also agreed that in general the Fund should not dictate to the national authorities conditions on internal prices and subsidies unless they directly affect the balance-of-payments position of the country, or if the pricing structure severely strains the budgetary finances of the government, and thereby affects its external position.

3. Recent Stabilization Programs Adopted in Problem Countries. Twenty-one countries adopted conditional IMF programs between January 1977 and mid-September 1978 (see Table 1). Usually, Fund programs run for one year, although programs can be negotiated for longer periods if the Fund and the country think this is desirable. In each case the amount is based on the country's financing need, and more importantly on the unused portion of its quota in the IMF. (Countries' quotas in turn have been determined by their importance in world trade, their reserves, and their GNP.)

The countries listed in Table 1 have experienced various degrees of success and failure under Fund programs. The United Kingdom has been quite successful in controlling inflation and improving its balance of payments under its stand-by arrangement with the Fund. However, growth in output and employment has been slow. Argentina has also shown dramatic improvement in its external position under the Fund stabilization program, although progress toward containing inflation has been weak.

Egypt, Jamaica, Peru, and Zaire were much less successful at implementing IMF programs originally negotiated in 1977. They all violated performance criteria by wide margins and became ineligible to make further drawings under those programs. The economic situations in these countries did not improve without Fund programs and all but Zaire have negotiated new programs with the IMF during 1978. (Zaire is

Table 1

IMF Conditional Programs under Stand-By Arrangements
and the Extended Fund Facility1/
January 1977 - September 1978

Country	Year/Month of arrangement	Length of Program	Amount Approved (in SDR millions)2/	Amount not purchased as of expiration date or as of July 31,1978 (in SDR millions)
	1977			
United Kingdom	January	2 years	3,360.00	1,720.00
Pakistan	March	1 year	80.00	0
Egypt	April	1 year	125.00	20.00
Italy	April	1 year 8 months	450.00	450.00
Zaire	April	1 year	45.00	250.00
Burma	May	1 year	35.00	0
Jamaica	August	2 years	64.00	44.80
Romania	September	1 year	64.13	13.00
Argentina	September	1 year	159.50	159.50
Peru	November	2 years 1 month	90.00	80.00
Sri Lanka	December	1 year	93.00	38.00
	1978			
Turkey	April	2 years	300.00	250.00
Zambia	April	2 years	250.00	200.00
Gabon	June	1 year	15.00	15.00
Jamaica	June	3 years	200.00	172.00
Panama	June	1 year	25.00	25.00
Portugal	June	1 year	57.35	57.35
Burma	July	1 year	30.00	30.00
Egypt	July	3 years	600.00	250.00
Guyana	July	1 year	6.25	n.a.
Peru	September	2 years 5 months	184.00	n.a.

1/ The Extended Fund Facility is a conditional stabilization program which allows for a longer adjustment period than the conventional stand-by agreement. Jamaica and Egypt came under EFFs during 1978.
2/ The value of the SDR is determined by a weighted basket of currencies. At the end of July 1978, 1 SDR equaled $1.26.
n.a. - not available.

currently negotiating a new program.) These countries have found that successful negotiation and implementation of IMF programs are increasingly important in getting further loans from commercial banks and official donors.

II. Resources of the IMF

1. The Sixth Quota Increase and the Supplementary Financing Facility (Witteveen Facility). The long delayed Sixth Quota increase finally took effect in April 1978. This increased most members' quotas by 25 per cent, with larger selective increases for the OPEC countries. Total quotas were increased from SDR 29 billion to SDR 39 billion (\$37 billion to \$49 billion)[1/] with countries paying the entire increase in their own currency or seventy-five per cent in their own currency and twenty-five per cent in SDRs or usable currencies specified by the IMF. With the Sixth Quota increase the U.S. quota now stands at SDR 8,405 million (\$10,590 million).

The Witteveen Facility, if it becomes effective, will provide the Fund with temporary additional liquidity, which could then be used to provide financing for countries with particularly severe adjustment problems in relation to quota sizes. Funds from the Witteveen Facility would be made available in conjunction with drawings made under stand-bys or extended fund facility arrangements. The new facility should amount

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1/ SDRs have been converted to dollar equivalent at 1 SDR = \$1.26.

to approximately SDR 8.75 billion ($11.03 billion), with contributions coming from the major OPEC countries, the United States, Germany, Switzerland, Japan, and others. The U.S. contribution would amount to SDR 1.45 billion ($1.83 billion). The Witteveen Facility should come into effect once Congress approves the U.S. contribution, which it is expected to do by the end of the calendar year.

2. Fund Liquidity. The payment of the Sixth Quota increase and the early repayments by the United Kingdom have improved the Fund's liquidity over the past year, while the Witteveen facility should further improve the Fund's liquidity when it becomes effective. The various components of Fund liquidity are presented in Table 2.

Table 2

Fund Liquidity (end-period)
(in SDR billions)

	1977	August 1978
Usable currencies 1/	6.12	16.00
(non U.S. dollar usable currencies)	(2.92)	(10.35)
SDR holdings	1.18	1.20
Total	7.30	17.20

1/ Usable currencies represent the total of the Fund's holdings of currencies of all members who are net creditors to the Fund.

The Fund's liquidity as of end-August is much improved over that of December 1977. The total holdings of usable Fund currencies and SDRs amounted to SDR 17.20 billion ($21.67 billion) at end-August 1978, about SDR 10 billion ($12.6 billion) more than at the end of 1977.

It would appear that the U.S. could draw its reserve tranche of SDR 2.73 billion ($3.44 billion) if it chose to do so, without putting undue strain on the Fund's liquidity position.

In light of the recent and prospective increases in liquidity, the IMF has recently waived the traditional limit on borrowings under regular credit programs of 100 per cent of quota. In recent months Turkey, Zambia, and Egypt have become eligible to draw over 150 per cent of their quotas. In all three cases, adjustment problems are large in relation to quota size. The purpose of the Witteveen Facility is to accommodate similar sized financing needs for prospective borrowers, without cramping the Fund's liquidity position. It is hoped that the additional amounts available will induce countries in need of adjustment to seek the Fund's assistance at an earlier stage than they previously would.

Dr. Heinz Sippel

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1978 SEP 18 AM 11: 36
RECEIVED
OFFICE OF THE CHAIRMAN

Vorsitzender des Vorstandes
Hessische Landesbank - Girozentrale -

6000 Frankfurt am Main 1
Junghofstraße 18-26

September 11th, 1978

To the Chairman
Federal Reserve Bank
Federal Reserve Building
Constitution Avenue
Washington D.C.

9/18

Dear Mr. Miller,

I would like to express my sincere thanks for giving us the opportunity of meeting you on the occasion of the IMF-Meeting in Washington. I would also like to confirm the arrangement of an appointment on Monday, September 25th at 2.3o p.m., made through the good offices of Mr. Vandenheuvel, the Geneva Ambassador to the United Nations.

I can well imagine that your time schedule is very tight, especially during the IMF-Meeting and appreciate highly your giving us some of your valuable time to discuss matters of mutual interest, in particular the international monetary situation and the interest development.

Looking forward to meeting you, I remain,

yours sincerely,

H. Sippel

797-0686

797-0631

August 18, 1978

The Honorable William J. vanden Heuvel
The Representative of the United States
to the European Office of the United Nations
Geneva, Switzerland

Dear Mr. Ambassador:

It would be a pleasure to meet with Dr. Heinz Sippel and his colleagues from the Hessische Landesbank during their visit in September. May I suggest 2:30 PM on Monday, September 25? If this is not convenient, I suggest Dr. Sippel contact my office at 452-3201.

Let's not raise questions.

Best wishes.

Sincerely,

THE REPRESENTATIVE
OF THE
UNITED STATES OF AMERICA
TO THE
EUROPEAN OFFICE OF THE UNITED NATIONS
GENEVA

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1978 AUG -8 AM 11:52
RECEIVED
OFFICE OF THE CHAIRMAN

July 11, 1978

#1973

Honorable G. William Miller
Chairman, Board of Governors
Federal Reserve System
Constitution Avenue between
Twentieth & Twenty-First Streets
Washington, D. C. 20551

8/9/78
Ans: Be pleased to see them, — suggest date and time during period of their visit.
G

Dear Mr. Chairman:

On July 7, Mr. Peter H. Stehli, Vice President of Paine, Webber, Mitchell, Hutchins, International, Inc., of Geneva, contacted me to ask if I could arrange an unofficial meeting with you for the following top members of the Hessische Landesbank, Junghofstr. 18-26, 6 Frankfurt a. M., Germany:

Dr. Heinz Sippel	- Chairman of the Board
Dr. Herman-Adolf Kunisch	- General Manager
Mr. Horst Elwenn	- Senior Vice President

These gentlemen will be in Washington, D. C. for the World Bank meeting September 25-29 and would be most appreciative if they could meet with you unofficially to discuss economic matters of mutual interest concerning the United States and Germany. The Hessische Landesbank is one of the large German mutual savings banks and it has been an important buyer and seller of American securities for many years.

I would appreciate hearing from you at your earliest convenience as to whether and when an appointment might be set up.

With best wishes,

Sincerely,

Bill vanden Heuvel
William J. vanden Heuvel
United States Ambassador

80 Rue de Lausanne
Geneva, Switzerland

CASSA DI RISPARMIO DI TORINO

BANK ESTABLISHED IN ITALY IN 1827

ALBERTO SALES
REPRESENTATIVE

U. S. REPRESENTATIVE OFFICE
375 PARK AVENUE
NEW YORK, N. Y. 10022
TELEPHONE: 421-6010

August 30, 1978

Mrs. Catharine Mallardi
Federal Reserve Board
Room 2046
20th and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Mrs. Mallardi:

Following your telephone conversations with Mr. Bill Gallagher of Textron Inc. and myself, I would like to confirm that the Chairman of our bank, Mrs. Emanuela Savio, will be pleased to meet with the Chairman of the Federal Reserve Board, Mr. Miller, on Monday, September 25th at 3:00 p.m.

For your guidance, our party will be staying at the Sheraton Carlton Hotel in Washington from September 22nd to September 27th.

Thanking you for your kind attention and assistance, we remain,

Very truly yours,

CASSA DI RISPARMIO DI TORINO

Alberto Sales
U.S. Representative

AS/lc

Removal Notice

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Citation Information

Document Type: Treasury

Number of Pages Removed: 3

Citations:

Confidential: Biographical profile, David Ibarra Munoz, April 13, 1978.

Confidential: Biographical profile, Gustavo Romero Kolbeck, April 21, 1978.

Yves Maroni
September 13, 1978

Mexico--Key Issues

- The Mexican authorities are concerned that their access to financing from national banks in the United States is being impeded by the Comptroller of the Currency's proposal to aggregate loans to a government and loans to certain other public sector entites in verifying that a national bank has not loaned more than 10 per cent of its capital and reserves to a single borrower. U.S. bank claims on Mexico have declined significantly since September 1977.

- The U.S. Government is asking Mexico to reduce the level of its borrowings in real terms from the Inter-American Development Bank (IDB), so that the IDB may channel more of its loans toward the poorest countries. The basis for the U.S. request is Mexico's potential oil wealth and the expected large income from it. The Mexican authorities are not pleased by this request.

- The slow growth of economic activity in Mexico over the last three years has prevented the creation of enough new jobs to absorb all of the new entrants to the Mexican labor force. This has fueled intensified pressures for illegal emigration to the United States. Can Mexico's economic growth be accelerated enough to prevent further increases in unemployment and reduce emigration pressures without rekindling inflationary pressures?

- The deceleration in the Mexican rate of inflation has slowed significantly this year. Unless it picks up momentum again, the continuation of wage moderation, on which further progress in the recovery from the 1976 crisis depends, may be in jeopardy. Can a renewed deceleration of inflation be achieved while the rate of economic growth goes up? Can it be achieved before labor unrest forces a relaxation of wage restraints? Can it bring the Mexican inflation rate down to the level of the U.S. rate?

Yves Maroni
September 9, 1978

Recent Economic and Financial Developments in Mexico

Mexico is continuing to recover from the crisis which forced a sharp devaluation of the peso two years ago. It is generally complying with all of the quantitative criteria specified in its agreement with the IMF, and it has already repaid the IMF nearly half of the SDR 419 million ($485 million) that it borrowed from the IMF at the time of the crisis.

The current account deficit was cut by 40 per cent from 1976 to 1977, as imports fell by about 10 per cent while exports rose by about 20 per cent. This year, the current account deficit will be larger (perhaps $2.3 billion, up $500 million). While exports may rise by another 25 per cent, imports may go up more and interest payments on the external debt are increasing.

Crude oil exports are sparking the 1978 rise in exports. They may exceed $1.7 billion this year, double last year's level. The rise in imports reflects mainly the implementation of the plans to develop the oil and natural gas resources. President Lopez Portillo announced September 1 that Mexico has potential oil reserves of about 200 billion barrels, and proven reserves of 20 billion barrels. Mexico is building a natural gas pipeline to supply its Northern industrial areas, but failure to reach an agreement with the United States on a selling price for the gas has, for the present, blocked plans to extend it to the U.S. border.

Long-term external debts maturing this year total nearly $4 billion. Another $2.7 billion in short-term external debt must be refinanced. External borrowings are continuing to exceed the amounts needed merely to balance the country's international accounts, because reserves are being built up as called for under the IMF agreement. Reserves rose by $450 million last year and have risen a further $100 million so far this year. They were $1,820 million at the end of August.[1/]

The improvement in fiscal management begun last year, and the consequent reduction in real terms in the public sector's demand for resources, are being continued this year. The financial position of business firms, that the devaluation had strained, has been strengthened with the help of some increase in bank credit made possible mainly by an enlarged flow of funds toward the financial institutions after interest rates on deposits were raised. As a result, private investment has shown some signs of picking up after a long period of stagnation. More generally, economic activity, which grew slowly for more than two years, seems to be expanding more rapidly this year. The marked degree of wage moderation achieved last year in comparison with previous years has continued so far in 1978. The deceleration in the rate of inflation was substantial last year, but has slowed significantly this year.

The favorable prospects for oil and natural gas exports and the satisfactory progress of the recovery from the 1976 crisis have

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1/ Including gold holdings of about $78.5 million, valued at SDR 35.00 per ounce.

strengthened Mexico's attractiveness for foreign lenders. As a result, Mexico has been able to raise all the funds it needed at interest rate spreads which have declined substantially in the last year, and with lengthening maturities. In the second quarter this year, Mexico's Euro-currency borrowings had an average spread of 1.14 per cent and an average maturity of 8.8 years, compared with 1.57 per cent and 5.4 years in the same quarter last year.

However, between September 1977 and March 1978, U.S. bank claims on Mexico declined by $1.4 billion, while claims of banks in other G-10 countries and Switzerland rose by $1.2 billion. (More recent data are not available.) This appears to be the result of a proposal by the U.S. Comptroller of the Currency to aggregate loans to a Government and loans to certain other public sector entities in verifying that a national bank has not loaned more than 10 per cent of its capital and reserves to a single borrower.

In the last 18 months, the peso-dollar exchange rate has remained virtually unchanged, while the Mexican inflation rate continued to exceed that of the United States. As a result, Mexico's competitive position weakened vis-a-vis the United States. But it strengthened vis-a-vis third countries, because, as the dollar depreciated against other currencies, so did the peso.

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Citation Information

Document Type: Treasury

Number of Pages Removed: 3

Citations: Confidential: Biographical profile, Muhammad ibn Ali Aba al-Kuayl, October 17, 1977.

Martha Terrie
September 21, 1978

Recent Economic Developments in Saudi Arabia

Activity and Prices

-- Real GDP grew by 13.2 per cent in 1977, up from 8.4 per cent in 1976. This growth trend is expected to continue in 1978.

-- Consumer prices rose 11 per cent in 1977 down considerably from the 31 per cent rise in 1976.

-- In the first half of this year crude oil production fell 17 per cent over the first half of 1977 to 7.8 million barrels per day.

External Sector

-- Saudi Arabia's current-account surplus is projected to decline by over 40 per cent in 1978 to approximately $11 billion (excluding official transfers). This drop will be the result of lower oil revenues and the continued growth in imports (although this growth is expected to slow to about 25 per cent from 30 per cent in 1977).

-- Total Saudi foreign economic assistance was almost $6 billion 1976 and probably somewhat higher in 1977. It is expected to be somewhat lower this year.

Current Issues

-- See the attached note by the Treasury staff discussing oil prices and the dollar.

Extract from interview of Saudi Prince Fahd by Kuwaiti publisher Jarallah

QUESTION: What about oil and the dollar? Will you accept the proposal for a basket of currencies, to replace the dollar as the basis for oil-pricing?

ANSWER: We have refused to exchange the dollar with a basket of currencies. It is a complicated subject and needs a very long study. We are not about to accept this proposal at present. We believe that the dollar is the important currency. In my information, I can say that the dollar will regain its strength before the end of this year. The dollar is the most powerful currency in international investments. Furthermore, if we accept the basket proposal, our revenues and investments in dollars will be affected and that is what we wish to avoid as we are the biggest oil producing country. We also do not want any other country to be harmed by this. In a very important matter like this, the decisions should be well studied.

QUESTION: Will your highness raise oil prices?

ANSWER: Western countries should realize that we do not raise oil prices unless we are compelled to do so. When we raised the oil prices last year to cope with the prices of consumer and industrialized products which shot up in a horrifying manner. As long as international consumer items keep their prices steady, we do not think of raising the oil prices. There will be no oil price rise unless the situation demands it.

SOURCE: Kuwait 04675 dated 8/23/78 (Unclassified)

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Citation Information

Document Type: Board of Governors, Treasury **Number of Pages Removed:** 12

Citations:

Restricted: Memorandum from Ted Truman to Chairman Miller, Bank of Israel, September 27, 1978.

Restricted: Background Information on the Direct Distributions of Profits from IMF Gold Sales, September 27, 1978.

Confidential: Biographical profile, Arnon Gafni, September 5, 1978.

Confidential: Biographical profile, Simcha Ehrlich, September 5, 1978.

Confidential: Biographical profile, Haruo Maekawa, undated.

Confidential: Biographical profile, Emile van Lennep, August 24, 1978.

Larry Promisel
September 21, 1978

The Organization for Economic Cooperation and Development

I. The OECD has performed two major functions in recent years, so far as general economic matters are concerned:[1/]

-- It has provided the major forum for international discussion of economic developments, policies, and prospects in industrial countries and for the international coordination of policy.

-- The OECD Secretariat has prepared a great deal of material that serves not only as background for OECD meetings but also as major inputs into the work of analysts throughout the world (including our own work here at the Fed). The OECD's Economic Outlook, published twice yearly, is the preeminent publication of its kind.

II. Most of the OECD meetings with which the Federal Reserve is involved come under the aegis of the Economic Policy Committee (EPC), of which Charles Schultze is now Chairman. The EPC's Working Party 3, in which Governor Wallich typically participates, deals with international payments and adjustment. Other working parties deal with growth and investment, inflation, and short-term economic prospects.

III. Although the OECD Secretariat is basically an objective analytical and statistical organization, since 1974 it has consistently advocated more expansionary demand management policies on the part of those countries with strong external positions (notably Germany and Japan and, until

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1/ The OECD is also involved with other areas, such as development and North/South issues, industry, energy, manpower, agricultural, and science.

the past year or so, the United States). The Secretariat's persistent urging in the direction of more expansionary policies reflects:

- -- The fact that its forecasts for activity have generally been more pessimistic than those of national forecasters (and have, by and large, turned out to be more accurate), and
- -- The staff is dominated by English economists whose training has led them to favor active government spending policies to stimulate aggregate demand. Stephen Marris, Secretary General van Lennep's chief economic adviser, shares this orientation.

IV. The Secretariat has also encouraged national authorities to consider incomes policies in one form or another.

V. The issue that the Secretariat is now pushing to the forefront of international discussion involves what it calls "positive adjustment policies" (PAP), i.e., structural or supply-oriented policies -- designed to complement aggregate demand policies -- to increase investment and improve the allocation of resources over time.

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Citation Information

Document Type: Treasury

Number of Pages Removed: 2

Citations: Confidential: Biographical profile, Emile van Lennep, June 8, 1976.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 25, 1978

To Chairman Miller

Subject: Reception for central bank delegates--Wednesday, September 27, 1978

From George L. Spencer, Jr.

Attached for your information is a listing of the persons who have been invited to the reception to be held between 6:00-8:00 p.m., Wednesday, September 27, 1978, honoring central bank officials and their spouses who are in Washington this week for the annual IMF/IBRD meetings. This listing has been compiled (as of 9/21/78) on the basis of replies to a letter of invitation sent to the heads of foreign central banks, and from information furnished by the International Monetary Fund/World Bank regarding the composition of the delegations.

ARRANGEMENTS

The reception will be held on the Terrace Level of the Martin Annex Building.

There will be no formal receiving line. However, it is suggested that Members of the Board and their spouses place themselves near the two entrances to the Terrace Dining Room in order to greet the guests as they enter.

Members of the staff and their spouses are requested to place themselves where the guests are likely to gather as the reception gets under way: the Podium Level, and the hallway adjacent the three elevators on Terrace Level. The staff should greet the visitors and escort them to the Terrace Dining Room and introduce them, when practical, to the Members of the Board.

Chartered buses will be available at the Sheraton-Park Hotel (where the annual meetings are taking place) to bring the visitors to the Board's reception, leaving the hotel at 5:45, 6:05, 6:45 and 7:10 p.m. Chartered buses will leave the "C" Street entrance to the Martin Annex for the Sheraton-Park at 6:35, 7:30, and 8:15 p.m.

As of 9/21/78

Central Bank Delegates Invited to

Attend Board's Reception on

Wednesday, September 27, 1978

Invitees

Afghanistan (The Afghanistan Bank)

Mohammed Hakim	Governor
Mohammad Akbar	First Deputy Governor

Algeria (Central Bank of Algeria)

Seghir Mostefai	Governor
Mohamed Bessekhouad	Director of Research
Rachid Bouraoui	Director of Credit

Argentina (Central Bank of the Argentine Republic)

Adolfo C. Diz	President
Ricardo H. Arriazu	Advisor, Office of President
Francisco P.N. Soldati	Director
Enrique Folcini	Director
*Pedro Camilo Lopez	General Manager
Horacio A. Alonso	Deputy General Manager
Elias Salama	Deputy General Manager
Antonio E. Conde	Manager, Foreign Department

Australia (Reserve Bank of Australia)

*D. N. Sanders	Deputy Governor
*R. A. Johnston	
M. J. Phillips	Chief Manager, Int'l Dept.
E. L. Howitt	Secretary to Deputy Governor

*Spouse accompanying

<u>Austria</u> (Austrian National Bank)

*Stephan Koren	President
Philipp Rieger	Executive Director
Erwin Schmidbauer	Assistant to the President
Ferdinand Hain	Chief, Int'l Division

<u>Bahamas</u> (The Central Bank of the Bahamas)

Timothy B. Donaldson	Governor

<u>Bahrain</u> (Bahrain Monetary Agency)

*Abdulla Hassan Saif	Director General
Alan E. Moore	Adviser to the Board

<u>Bangladesh</u> (Bangladesh Bank)

M. Nurul Islam	Governor

<u>Barbados</u> (Central Bank of Barbados)

Courtney N. Blackman	Governor
Winston Cox	Deputy Director

<u>Belgium</u> (National Bank of Belgium)

*Cecil de Strycker	Governor
Georges Janson	Director, Nat'l Bk. of Belgium
Roger Vanden Branden	Head of Foreign Department
Andree Gruloos	Secretary to Governor

*Spouse accompanying

Benin (Centrale des Etats de l'Afrique de l'Ouest)

*Guy Pognon	National Director

Bolivia (Central Bank of Bolivia)

*Jose Justiniano	President
Milton Paz	General Manager

Botswana (Bank of Botswana)

*Brenton C. Leavitt	Governor
B. Gaolathe	Permanent Secretary
Dr. Masire	Minister of Finance

Brazil (Central Bank of Brazil)

*Paulo H. Pereira Lira	President
Fernao C. B. Bracher	Dir. for the External Area
Luiz Barbosa	Adviser to the Board

Burma (Union of Burma Bank)

U. Aye Hlaing	Chairman

*Spouse accompanying

Burundi (Bank of the Republic of Burundi)

Elisee Ntahonikora	Governor
Aloys Ntahonkiriye	Vice Governor

Cambodia

Cameroon (Banque des Etats de l'Afrique Centrale)

Gottlieb Titti	National Director

Canada (Bank of Canada)

*Gerald K. Bouey	Governor
Alain Jubinville	Deputy Governor

Central African Empire (Banque des Etats de l'Afrique Centrale)

Jean Marie M'Bioka	National Director

*Spouse accompanying

Chad (Banque des Etats de l'Afrique Centrale)

Machayl Bako	National Director

Chile (Central Bank of Chile)

Alvaro Bardon M.	President
Roberto Guerrero	General Counsel
Enrique Tassara T.	Dir. of Int'l Operations
Adolfo Goldenstein K.	Manager, Reserves Admin.

China (Central Bank of China)

Kuo-Hwa Yu	Governor
Kan Lee	Managing Director
H. P. Chia	General Manager
Paul T. M. King	Director of Secretariat

Colombia (Bank of the Republic)

Comoros

*Spouse accompanying

Congo (Banque des Etats de l'Afrique Centrale)

*Gabriel Bokilo	National Director

Costa Rica (Central Bank of Costa Rica)

Guillermo Gonzalez Truque	Executive President
Roberto Picado Hidalgo	Director, Monetary Department
Otto Kikut Croceri	Director, Economic Division

Cyprus (Central Bank of Cyprus)

*C. C. Stephani	Governor
H. G. Akhniotis	Manager, Economic Research Dept.

Denmark (National Bank of Denmark)

*Erik Hoffmeyer	Chairman, Board of Governors
Svend Andersen	Member, Board of Governors
Henning Dalgaard	Assistant Director
Hans Flinch	Assistant Department Head

Dominican Republic (Central Bank of the Dominican Republic)

*Eduardo Fernandez P.	Governor
Carlos Despradel	Economic Adviser to Governor
Opinio Alvarez	Technical Financial Asst.
George Arzeno	Member of the Monetary Board

* Spouse accompanying

Ecuador (Central Bank of Ecuador)

Rodrigo M. Espinosa	General Manager
Ricardo Munoz Chavez	President, Monetary Board
Eduardo Cabezas	Adviser to General Manager
Celso Maldonado	Adviser to General Manager
Jose Mario Rumazo	Adviser to General Manager

Egypt (Central Bank of Egypt)

Mohamed Abdel Fattah	Governor
Farouk Fouad Meshreki	Director General
Nasser Sayed Morsi	Personal Assistant to Governor

El Salvador (Central Reserve Bank of El Salvador)

*Victor Hugo Hurtarte	President
Eusebio Martell	Director
Mauricio Daniel Vides Casanova	Director
*Rafael Rodriguez Loucel	Chief, Dept. of Economics
Jose Edilberto Martinez	

Equatorial Guinea

Ethiopia (National Bank of Ethiopia)

Legesse Tickeher	Governor
Atnafou Mengistu	Manager, Foreign Bkng. Section

*Spouse accompanying

Fiji (Central Meonetary Authority of Fiji)

*H. J. Tomkins	General Manager

Finland (Bank of Finland)

Mauno Koivisto	Governor
Pentti Uusivirta	Member of Board of Management
Kari Pekonen	Head, Exchange Policy Dept.
Kaarlo V. Jannari	Acting Head, Exchange Policy

France (Bank of France)

Bernard Clappier	Governor
Marcel Theron	Deputy Governor
*Gabriel Lefort	Managing Dir., Foreign Dept.

Gabon (Banque des Etats de l'Afrique Centrale)

Jean-Paul Leyimangoye	National Director

The Gambia

S. S. Sisay	Governor
J. A. Solheim	Chief Economist
A. K. Mambouray	Economist

*Spouse accompanying

Germany (Deutsche Bundesbank)

*Otmar Emminger	Governor
*Karl Otto Poehl	Deputy Governor
Helmut Schlesinger	Member of the Board
Kurt Nemitz	President, Landeszentralbank
Wolfgang Rieke	Department Head
Dieter Schmoelling	Assistant to Governor
Ruediger von Rosen	Assistant to Deputy Governor

Ghana (Bank of Ghana)

A. E. K. Ashiabor	Governor
S. K. Botchway	Deputy Governor
E. W. Asumang	Deputy Chief

Greece (Bank of Greece)

*Xenophon Zolotas	Governor
Dimitrios Chalikias	Economic Adviser
*Michael Vranopoulos	General Manager
Frosso Stefanitsis	Secretary to Governor

Grenada

Guatemala (Bank of Guatemala)

Plinio Grazioso	President
Carlos H. Alpirez P.	Manager
Federico Linares M.	Director, Dept. of Eco. Studies
Mario Mejia G.	Director, Foreign Exchange Dept.
Julio Noriega H.	Chief, Financial Inst. Section

*Spouse accompanying

Guinea (Central Bank of the Republic of Guinea)

Kory Kondiano	Director of Research

Guinea-Bissau (National Bank of Guinea-Bissau)

Victor Freire Monteiro	Governor
Augusto B. Evora	Inspector
Jose A. Lopes	Director
Jose P. Vaz	Head of Department

Guyana (Bank of Guyana)

Patrick E. Matthews	Governor

Haiti (National Bank of the Republic of Haiti)

Honduras (Central Bank of Honduras)

Guillermo Bueso	President
Gonzalo Carias Pineda	Assistant to President

*Spouse accompanying

Iceland (Central Bank of Iceland)

*Johannes Nordal	Governor and Chairman
*Sigurgeir Jonsson	Director

India (Reserve Bank of India)

I. G. Patel	Governor

Indonesia (Bank Indonesia)

*Rachmat Saleh	Governor
*Arifin M. Siregar	Managing Director
TJ. A. Partha Sukawati	Official of Bank Indonesia
Aulia Pohan	Official of Bank Indonesia
*A. Effendie	Representative of Bank in N.Y.
*Djamalius Luddin	Official of Bank in Washington

Iran (Bank Markazi Iran)

Youssef Khoshkish	Governor
Shapur M. Shirazi	Vice Governor
Ali Manavi-Rad	Director, Int'l Relations Dept.

Iraq (Central Bank of Iraq)

Izziddin Saleem	Acting Governor
Sabhi Frankool	Adviser

*Spouse accompanying

Ireland (The Central Bank of Ireland)

*C. H. Murray	Governor

Israel (Bank of Israel)

*Arnon Gafny	Governor
Eliezer Sheffer	Deputy Governor
Moshe Meirav	Director, Foreign Department
Avraham Van De Hal	Foreign Department

Italy (Bank of Italy)

Paolo Baffi	Governor
Giuliano Monterastelli	Central Operations Manager
Giovanni Magnifico	Economic Adviser
Fabio Bonci	Director
*Fabrizio Saccomanni	Division Chief, Research Dept.

Ivory Coast (Banque Centrale des Etats de l'Afrique de l'Ouest)

*Lamine Diabate	National Director

Jamaica (Bank of Jamaica)

*Herbert S. Walker	Governor
Lloyd F. Muschette	Acting Governor

*Spouse accompanying

Japan (The Bank of Japan)

Haruo Mayekawa	Deputy Governor
Masaru Hayami	Executive Director
Shijuro Ogata	Adviser to Governor
Akira Aoki	Representative in New York
Kumiharu Shigehara	Associate Adviser, Foreign Dept.
Yoshiharu Obata	Assistant Representative in N.Y.
Satoshi Shiibashi	Secretary to Deputy Governor

Jordan (Central Bank of Jordan)

Mohammad Saleh	Executive Manager

Kenya (Central Bank of Kenya)

D. N. Ndegwa	Governor
A. Abdallah	Deputy Governor
D. M. Kayanda	Director
A. N. Komora	Director of Research

Korea (Bank of Korea)

Byong Hyun Shin	Governor
Eun Shik Chuh	Assistant Governor
Seung Chul Ahn	Deputy Director
Hoon Shim	Chief, Int'l Cooperation Div.
Chong Hack Chung	New York Representative

Kuwait (Central Bank of Kuwait)

Hamzah Abbas Hussein	Governor
Mabarak Faleh Al-Noot	Manager, Foreign Operations Dept

*Spouse accompanying

Laos (National Bank of Laos)

Leuane Somboukhan	Acting Director

Lebanon (Bank of Lebanon)

Michel El-Khoury	Governor

Lesotho

Liberia (National Bank of Liberia)

*Charles A. Greene	Governor

Libyan Arab (Central Bank of Libya)

K. M. Sherlala	Governor
Mohamed Finaish	Economic Adviser

*Spouse accompanying

Luxembourg

Pierre Jaans	Commissioner for Banking Control

Madagascar (Central Bank of Madagascar)

*Leon M. Rajaobelina	Governor
Renee Razafintsalama	Director of Research

Malawi (Reserve Bank of Malawi)

J. Z. U. Tembo	Governor
H. M. Mapondo	Senior Research Officer
J. Chikapa	Assistant General Manager

Malaysia

Tan Sri Ismail bin Mohamed Ali	Governor
Lin See Yan	Economic Adviser
Khong Kim Nyoon	Senior Economist
Kamal Ibrahim	Administrative Officer

Mali (Central Bank of Mali)

Ismaila Kanoute	President
Albert Clary	Director General

*Spouse accompanying

Malta (Central Bank of Malta)

Lino Spiteri	Deputy Governor
Emanuel Ellul	Head of Research Department

Mauritania (Central Bank of Mauritania)

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Naim H. Chaar	Adviser

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*Alfredo Phillips O.	Deputy Director
*Leopoldo Solis	Deputy Director
*Francisco Suarez Davila	General Manager
*Ariel Buira Seira	Manager
Ma. Concepcio Rubio	Private Secretary of Dir. Gen.

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Ahmed Bennani	Vice Governor

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Netherlands (The Netherlands Bank)

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Antonio dos Santos Labisa	Deputy Director, Int'l Dept.

*Spouse accompanying

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*Jawad Azzeh	Head, Research Department

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*C. M. Nyirabu	Governor
D. G. Mboyi	Finance Manager Officer of Treas..

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G. B. B. Mbulo	Director of Research

*Spouse accompanying

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R. T. P. Hall	Manager
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Bank of Central African States

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East Caribbean Currency Authority

*Cecil A. Jacobs	Managing Director

Martha Terrie
September 20, 1978

Current Economic Developments in Israel

Activity and Prices

-- The economy continues to face high inflation, currently at an annual rate of 45 per cent, which is somewhat higher than the 40 per cent rate experienced last year; the rise is largely because most labor demands have been accepted by Prime Minister Begin in an attempt to maintain strong political support.

-- Real GNP is expected to rise 4 to 5 per cent this year, up from the 1977 increase of 1 per cent, but considerably lower than the 1969-72 average rate of over 10 per cent.

The External Sector

-- The non-military trade deficit has improved from a deficit of \$3.9 billion in 1975 to a deficit of \$1.1 billion projected for 1978, largely because of an increase in exports and a weak demand for imports stemming from the relatively low level of domestic activity.

-- Gross reserves currently amount to about two months' imports (\$1.7 billion) while the total external debt, expected to reach almost \$12 billion by end-1978, will require servicing of about \$1 billion, equal to almost 25 per cent of exports.

-- Total defense spending in 1978 is expected to reach \$3.2 billion, which accounts for about 28 per cent of public expenditures. Imported equipment and services account for about half of the defense expenditure.

Current Issues

-- The IMF has agreed this month to a purchase by Israel of SDR 72.4 million (\$90.5 million) under the Fund's compensatory financing facility.

-- Continued economic improvement will be affected by political developments in the Middle East.

-- The external financial gap would widen greatly if hostilities were to break out again.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 20, 1978

To Edwin M. Truman

Subject: European Monetary System

From Jerry Caprio

Summary

The debate concerning the European Monetary System (EMS) gained momentum during the past week. However, although there was some coalescence of opinions concerning the exchange-rate aspect of the EMS, it is still unclear what decisions will be taken in this area and when they will be implemented. U.S. interest in the EMS is centered on the maintenance of flexibility of the dollar vis-a-vis EC currencies and the possibility of a deflationary bias within the system.

Details

After two days of bilateral talks last week, the Germans appeared to have won French acceptance of the so-called parity-grid approach, which is the system used in the current snake arrangement. Hitherto, the French, British and Italians had preferred that each currency be pegged to a basket of EC currencies, since such an arrangement would potentially (but not necessarily) permit a looser relationship between their currencies and the German mark. However, the practical difficulties of operating a basket system seem to have convinced most prospective EMS members that a parity-grid approach would be better.

At the September 18 meeting of the EC Finance Ministers, a compromise proposal was put forth. The proposal called for a parity grid as the center of the EMS, with the possible use of a basket as a longer-term indicator of exchange-rate changes. Although it is very unclear how the compromise would operate, most reports say that the British stood alone in their opposition to it. Discussions on all aspects of the EMS will resume next month and a final report is due on October 31. At present, the heads of government are scheduled to decide in early December on the exact nature of the EMS and the system is to begin operating on January 1. We continue to receive conflicting reports as to the feasibility of this time schedule.

The EC Finance Ministers reiterated on September 18 the statement made at Bremen that "in principle" intervention in the EMS will be carried out in EC currencies. However, they continued to entertain the possibility that third currencies, including the dollar, could be used in intervention by participants. Thus, the concern that the EC might attempt to limit exchange-rate movements against third currencies is still a live issue. It is also unclear how rigid will be the rules -- and the adherence to these rules -- of the EMS. Consequently, it is not possible to ascertain whether or not the EMS will have a deflationary impact on the EC and, as a result, on the rest of the world.

Finally, two issues that are likely to be discussed at the IMF annual meetings are:

(1) What are the implications of the EMS for the IMF? Will the EMS participants be able to avoid IMF surveillance? Will the formation of the EMS lead to a neglect of the IMF by Europe?

(2) What will be the effect of an EC reserve unit on world liquidity?

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INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

PRESS RELEASE No. 78/71

FOR IMMEDIATE RELEASE:
September 24, 1978

Press Communiqué of the Interim Committee of the
Board of Governors of the International Monetary Fund

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its eleventh meeting in Washington, D.C. on September 24, 1978, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. J. de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Gamani Corea, Secretary-General, UNCTAD; Mr. Ali M. Jaidah, Secretary-General, OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. Olivier Long, Director General, GATT; Mr. Robert S. McNamara, President, IBRD; Mr. François-Xavier Ortoli, Vice-President, CEC; Mr. Jean Ripert, Under-Secretary-General for International, Economic and Social Affairs, UN; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee recognized that progress had been made on various fronts in overcoming the serious difficulties that had beset the world economy during the years 1973-75. In countries that had taken policy measures to adjust to the disturbances of those years, the favorable effects were clearly evident. Nevertheless, the Committee noted, the current situation remained unsatisfactory in several important respects.

The Committee expressed concern that in most member countries rates of price increase continued to be much too high and substantial underutilization of economic resources, including high levels of unemployment, continued to prevail. On the international adjustment process, the Committee noted that wide differences in rates of inflation and growth in domestic demand had contributed to the continuation of large deficits and surpluses on current account among the industrial countries. These imbalances had resulted in unstable foreign exchange markets during the past year, and that this instability, in turn--through its effects on prices, confidence, and investment--had made the formulation and implementation of policies more difficult. The Committee emphasized that a return to exchange market stability would require the adoption of national policies to reduce inflation and to achieve more convergent rates of growth in domestic demand. In a further observation on the adjustment process, the Committee noted that a number of nonindustrial countries were encountering difficult problems of adjustment and external financing, in part because of the slow pace of world trade.

The Committee noted that inflation has continued to subside in a number of industrial countries but that it has tended to accelerate in some others, including the United States, where inflation has become the top priority of economic policy.

With respect to growth and resource utilization in the industrial world, the Committee's concern focused mainly on the abnormally high unemployment rates and substantial slack in industrial capacity prevailing outside the United States. Attention was drawn to the marked differences in growth rates in recent years between the United States, where a relatively full cyclical recovery has taken place, and most of the other industrial countries, where real economic activity has not generally expanded fast enough since 1975 to reduce unemployment.

The Committee noted that in the group of non-oil developing countries the average rate of growth in total output had been relatively well sustained, but at a level appreciably below that of the 1967-72 period, so that only little room was left for gains in real income.

The Committee reiterated its concern about the risk of increasing resort to protectionism, and stressed the importance of an early and successful completion of the Multilateral Trade Negotiations.

In its discussion of the current situation and outlook, the Committee concluded that a welcome change in international trade flows was emerging. This reflected the effects of changes in exchange rates for major currencies that had taken place over the past year and a half. The effects on exports and imports in volume terms, which take considerable time to come through, were beginning to produce favorable shifts in the current account balances of the United States, Japan, and certain other countries. These shifts, the Committee observed, may be expected to increase and, over time, could lead to a substantial improvement in the current account balances of industrial countries, provided that the pattern of price increases and growth rates in domestic demand among countries was an appropriate one. Achievement of such a pattern, the Committee stressed, would require that countries adopt internal measures to offset the expansionary effects of exchange rate depreciation and the deflationary effects of exchange rate appreciation.

The Committee reaffirmed the conviction it expressed at the April 1978 meeting in Mexico City that a coordinated strategy of policy, including measures with respect to energy, was needed in present circumstances in order to encourage noninflationary growth of the world economy and to ensure a reduction in imbalances in international payments, thereby promoting underlying conditions conducive to economic and financial stability as well as to greater stability in exchange markets. The Committee emphasized that implementation of such a strategy for the medium term would require each country to contribute to growth of the world economy in relation to the strength of its external position and the success of its anti-inflation policy.

Successful pursuit of a medium-term strategy in the industrial countries would lead, in the Committee's view, to marked improvement of the global environment for trade and development, with substantial benefits for the developing countries and other primary producing countries. The Committee believed that an improved world trading environment would help to arrest the recent ominous tendency toward use of protectionist trade measures. In addition, the Committee emphasized the desirability of measures on the part of the developed countries to open their markets more widely to products of the developing countries, to provide those countries more generous access to their capital markets, and--more generally--to assure the developing countries an adequate inflow of real resources, including a more satisfactory level of official development assistance.

3. The Committee considered a number of questions concerning the SDR on the basis of a report of the Executive Board on the subject. The Committee reached the conclusions set forth in paragraphs 4 and 5 below with the understanding that these conclusions are interrelated and must be adopted in their entirety together with the understandings reached by the Committee on the Seventh General Review of Quotas. In the view of the Committee, therefore, decisions on all these issues relating to SDRs and on the Seventh General Review should be taken at the same time.

4. The Committee discussed the question of the resumption of allocations of SDRs and, in that connection, took into account the various views and considerations presented in the report of the Executive Board. The Committee agreed to recommend that a decision to allocate SDRs, on the basis of a proposal to be made by the Managing Director concurred in by the Executive Board by November 1, 1978, should be acted on by the Board of Governors before the end of the year in order to help meet the long-term global need to supplement existing reserve assets in a desirable manner. Such an allocation would also help to promote the objective of the amended Articles of making the SDR the principal reserve asset in the international monetary system. In the Committee's view the Fund should make allocations of 4 billion SDRs in each of the next three years 1979 to 1981.

5. The Committee reached the following conclusions with regard to other aspects of the SDR.

(a) It was agreed that the interest rate on the SDR should be increased from 60 per cent of the weighted average of the short-term interest rates in the five member countries with the largest quotas to 80 per cent of that average and that the rate of remuneration should be set at 90 per cent of the interest rate on the SDR, that is, at 72 per cent of the combined market rate. This change would be subject to the following understandings: (i) Shortly before the end of each financial year, the Fund would consider whether the estimated net income of the Fund for that year was sufficiently large to permit the average annual rate of remuneration applicable for that year to be raised to a level above 90 but not above 100 per cent of the average annual rate of interest on the SDR and, in this connection, would also consider the possibility of lowering periodic charges on the Fund's currency holdings in the future. (ii) At the time that the Executive Board decides to adopt the new formula for the rate of remuneration, it would take a decision to prevent an automatic increase in the initial rate of periodic charges on the Fund's holdings that would otherwise occur under the Fund's Rules and Regulations. The Executive Board would review the Fund's financial position, and would take such action as might be necessary to protect that position, if the Fund's total expenses exceeded its income in any period of six successive months.

(b) The Committee noted that the Executive Board had been pursuing its work with regard to additional types of uses of SDRs, namely, for loans, collateral security, and the direct settlement of obligations, that could be permitted by the Fund in accordance with the provisions of the amended Articles and expressed the hope that the Executive Board would complete this work, take the necessary decisions in the near future, and report on them to the Committee at its next meeting.

(c) The Committee endorsed the view of the Executive Board that the requirement of reconstitution of special drawing rights, namely, the obligation to maintain a minimum average balance of SDRs over specified periods, should be reduced from 30 to 15 per cent of net cumulative allocations and that this requirement should be considered further in the light of experience.

(d) The Committee noted that the Executive Board intends to keep under review the question of a substitution account.

6. The Committee resumed its discussion of the Seventh General Review of Quotas and considered three major issues relating to it: the size of the overall increase in quotas, selective quota adjustments, and the method of payment of the increases in quotas. These issues were considered by the Committee in conjunction with the various issues relating to the SDR with which they are regarded as interrelated. The Committee recalled its view that there was a need for an increase in total quotas under the Seventh Review that would be adquate to meet the expected need for conditional liquidity over the next five years. The Committee also recalled its view that an adquate increase would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment.

The Committee's view was that an increase in the overall size of quotas of 50 per cent would be appropriate to bring about a better balance between the size of the Fund's resources and the need of members for balance of payments financing over the medium term. The Committee noted that the Executive Board does not intend to propose a general adjustment in quotas for five years after the Board of Governors approves the increase in quotas under the Seventh Review, unless there is a major change in the world economy and its financing needs.

The Committee noted with satisfaction that agreement had been reached on selective quota increases for 11 developing member countries: Iraq, Iran, Korea, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Singapore, and United Arab Emirates.

Taking into account the conclusions reached on the issues relating to SDRs, including allocations of SDRs, the Committee was of the view that, for the quota increases proposed as a result of this review, participants in the Special Drawing Department should pay 25 per cent of the quota increase in SDRs and that nonparticipants should pay the equivalent of 25 per cent of the increase in foreign exchange.

The Committee agreed to request the Executive Board to prepare and complete by November 1, 1978, for final decision and vote by the Board of Governors before the end of the year, a proposed resolution on increases in the quotas of members, which would include necessary provisions dealing with participation, the effective date of quota increases, and the method of payment of the increases in accordance with the understandings reached in the Committee.

7. In view of the need of a number of members for prompt financial asistance on the scale envisaged by the Supplementary Financing Facility, the Committee stressed again the importance it attached to the entry into operation of the Facility at the earliest possible date and urged all members that are expected to contribute to the financing of the Facility to take the necessary action so that it could be brought into operation at the earliest possible date.

8. The Committee noted that, in accordance with the Committee's request, the Executive Board has begun a review of the conditionality attaching to the use of the Fund's resources and that it intends to resume its consideration of the subject as soon as possible after the Annual Meeting of the Board of Governors.

9. The Committee agreed to hold its next meeting in Washington, D.C. in the spring of 1979.

U.S. Delegation
IMF - IBRD - IFC - IDA
Annual Meetings, September 25-28, 1978
Washington, D.C.

UNITED STATES DELEGATION

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TEMPORARY ALTERNATE GOVERNORS

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*C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs

*Sam Y. Cross, U.S. Executive Director, International Monetary Fund

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*Henry C. Wallich, Member, Board of Governors, Federal Reserve System

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*Elford A. Cederberg, Member, House Committee on Appropriations

1/ Pending confirmation as Alternate Governor.

*Married

Department of the Treasury
Office of the Assistant Secretary for International Affairs

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U.S. Delegation
IMF · IBRD · IFC · IDA
Annual Meetings, September 25-28, 1978
Washington, D.C.

ADMINISTRATIVE ARRANGEMENTS

1. Delegation offices will be on the fourth floor of the Sheraton Park Hotel, Rooms C-440 to C-454 in the "C" wing and M-477 in the main corridor.

2. There will be individual offices for the Governor and the Alternate Governors, as well as for the Treasury Under Secretary (Monetary Affairs) and Assistant Secretary (International Affairs). Office space will be available for the use of other members of the Delegation. Offices will have Treasury telephone lines. Consult your U.S. Delegation telephone directory for dialing instructions.

3. Plenary sessions take place in the main ballroom, entrance through foyer on lobby level.

REGISTRATION AND BADGES

4. Members of the U.S. Delegation should register at the U.S. Delegation Office (Room C-452), not at the general registration desks in the lobby. Badges will be required for admission to the floor of the conference at all of the sessions.

DOCUMENTS

5. There will be mail boxes in Room C-451 for the members of the Delegation, in which the Secretariat (U.S. Delegation) will place documents as they are received from the Fund and Bank for the use of U.S. Delegation members. These boxes will also serve for the deposit of mail and other communications for U.S. Delegates.

SOCIAL INVITATIONS

6. Some invitations to social events may have been sent to the Delegate's home or office address; others may be received at the Delegation Office. The Secretariat staff will hold any invitations received at the Delegation Office and U.S. Delegates are requested to check their boxes in Room C-451 for invitations.

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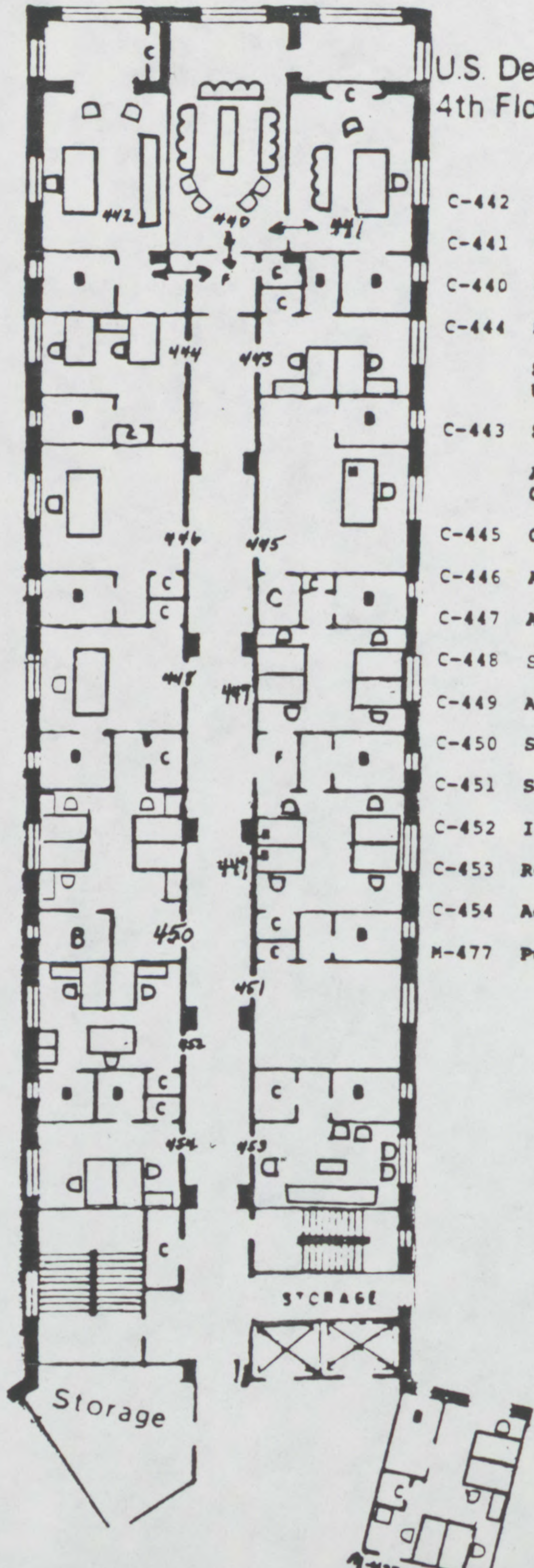
7. Please note that classified material may not be left in hotel rooms overnight. However, there will be limited storage facilities for classified folders and papers (not briefcases) in Room C-452 which is the International Affairs Secretariat.

William C. Grant

William C. Grant
Secretary, U.S. Delegation

(C) WING



U.S. Delegation Offices
4th Floor, Sheraton Park Hotel

C-442	Secretary Blumenthal
C-441	U/S Solomon
C-440	Secretary's Conference Room
C-444	Support Staff for: Secretary Blumenthal, U/S Solomon
C-443	Support Staff for: A/S Bergsten, Chairman Miller
C-445	Chairman Miller
C-446	A/S Bergsten
C-447	Advisers
C-448	State
C-449	Advisers
C-450	Secretarial Support
C-451	Supplies/Copy Service/Mail
C-452	I.A. Secretariat
C-453	Reception
C-454	Administration
M-477	Public Affairs

U.S. Delegation
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AGENDA

IMF:

1. ANNUAL REPORT
2. REPORT OF THE CHAIRMAN OF THE INTERIM COMMITTEE
3. ANNUAL REPORT AND REVIEW OF JOINT DEVELOPMENT COMMITTEE
4. 1978 REGULAR ELECTION OF EXECUTIVE DIRECTORS
5. FINANCIAL STATEMENTS AND AUDIT REPORT
6. ADMINISTRATIVE BUDGET FOR FISCAL YEAR ENDING APRIL 30, 1979
7. AMENDMENTS OF RULES AND REGULATIONS
8. PLACE AND DATE OF 1980 ANNUAL MEETING
9. SELECTION OF OFFICERS AND JOINT PROCEDURES COMMITTEE FOR 1978/79

BANK:

1. ANNUAL REPORT
2. FINANCIAL STATEMENTS AND ANNUAL AUDIT
3. ALLOCATION OF NET INCOME
4. ADMINISTRATIVE BUDGET FOR FY79
5. ANNUAL REPORT AND REVIEW OF JOINT DEVELOPMENT COMMITTEE
6. 1978 REGULAR ELECTION OF EXECUTIVE DIRECTORS
7. EXECUTIVE DIRECTORS' ADMINISTRATIVE ARRANGEMENTS
8. PLACE AND DATE OF 1980 ANNUAL MEETINGS
9. OFFICERS AND PROCEDURES COMMITTEE FOR 1978/79

IFC:

1. ANNUAL REPORT
2. FINANCIAL STATEMENTS AND ANNUAL AUDIT
3. ADMINISTRATIVE BUDGET

IDA:

1. ANNUAL REPORT
2. FINANCIAL STATEMENTS AND ANNUAL AUDIT
3. ADMINISTRATIVE BUDGET

(MEETINGS OF JOINT PROCEDURES COMMITTEE SCHEDULED FOR MONDAY, SEPTEMBER 25, AND THURSDAY, SEPTEMBER 28, 1978)

Department of the Treasury
Office of the Assistant Secretary for International Affairs

U.S. Delegation
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Position Paper

IMF — FORMAL AGENDA ITEMS

1. Annual Report

Recommendation: To note that appropriate discussion was held of the Annual Report of the Fund.

2. Report of the Chairman of the Interim Committee

Recommendation: To join in noting the report of the Chairman of the Interim Committee.

3. Annual Report and Review of the Joint Development Committee

Recommendation: To join in noting the report of the Joint Development Committee

4. 1978 Regular Election of Executive Directors

Background: The Board of Governors has approved a resolution relating to the 1978 Regular Election of Executive Directors of the IMF. This resolution provides for the appointment by Saudi Arabia of an Executive Director for a two-year term beginning November 1, 1978 pursuant to Article XII Section 3(c) of the IMF Articles of Agreement. It also provides for a temporary expansion of the Executive Board to twenty-one members during the two-year period of the Saudi appointment, in accordance with Article XII, Section 3(b). The U.S. voted in favor of this resolution.

Recommendation: To leave to the discretion of the U.S. Governor, in consultation with the Department of State and any other interested members of the National Advisory Council, decisions on any questions which may arise with respect to the election of Executive Directors for 1977-78. (The United States appoints its Executive Director and does not participate in the elections).

5. Financial Statements and Audit Report

Recommendation: To support a resolution stating that the Report of Audit and the Financial Statements contained therein fulfill the requirements of the Articles of Agreement and By-Laws. (The Audit Report has been prepared by an External Audit Committee, consisting of creditors from three member countries).

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6. Administrative Budget for Fiscal Year Ending April 30, 1979

Recommendation: To support a resolution stating that the Administrative Budget fulfills the requirements of the respective Articles of Agreement and By-Laws.

(The IMF Administrative Budget for the fiscal year ending April 30, 1979 amounts to $92.8 million compared with actual expenditures during the past year of $85.7 million).

7. Amendments of Rules and Regulations

Recommendation: To support a resolution notifying the Executive Directors that the Governors have reviewed the amendments to the Rules and Regulations adopted by the Executive Directors since the 1977 Annual Meeting and have no changes to suggest.

(Changes in the Fund's Rules and Regulations are adopted by the Executive Directors subject to review by the Governors at their next Annual Meeting.)

The Executive Board undertook a comprehensive review of the Rules and Regulations to bring them into conformity with the Second Amendment to the Articles of Agreement. The revised Rules and Regulations took effect as of the date the Second Amendment entered into force on April 1, 1978 and copies were sent to all members of the Fund on April 14, 1978. Since then, the following changes have been made in the Rules and Regulations:

Rule B-4, relating to IMF holidays, was adjusted to reflect U.S. legislation changing the date of observance of one of the holidays in the United States.

Rule O-1, relating to valuation of the SDR, was modified, with effect from July 1, 1978, following the decision of the Executive Board on changes in the method of valuation of the special drawing right to adapt the composition of the basket of 16 currencies that determines the value of the SDR on the basis of statistics for the period 1972-76 and to revise the percentage weights assigned to each currency in the basket. On June 30, 1978, the Fund made the calculations necessary to convert those weights into units of each of the 16 currencies so that the value of the SDR in terms of any currency was exactly the same on that day under the revised valuation basket as under the previous valuation basket.

Rule T-1(c), relating to the interest rate on the SDR, was amended, also effective July 1, 1978, to make the weights assigned to interest rates of the five member countries that are used to determine the rate of interest on the special drawing right consistent with the weights in the SDR valuation basket.

8. Place and Date of 1980 Annual Meeting

Recommendation: To support a resolution approving Washington, D.C., U.S.A. as the site for the 1980 Annual Meeting.

9. Selection of Officers and Joint Procedures Committee for 1978-79

Recommendation: To leave to the discretion of the U.S. Governor, in consultation with the Department of State and other interested members of the National Advisory Council, decisions on any questions as to the officers or membership of the Joint Procedures Committee for 1978-79 and as to the Chairmanship of the Bank and Fund Boards of Governors for the year following the end of the 1978 Annual Meeting.

IBRD-IFC-IDA FORMAL AGENDA ITEMS

PROBLEM: To state the U.S. position on the various agenda items to be taken up by the Governors of the Bank, the Bank's affiliates and the Fund.

U.S. POSITION: The U.S. Governor should vote for the adoption of the Joint Procedures Committee reports on present agenda items, thus giving U.S. support to each of the resolutions relating to these items. Items presently on the agenda are largely pro forma and in the main relate to internal management of the Bank, the Bank's affiliates and the Fund.

BACKGROUND: It is expected that the formal agendum for the four institutions and the rules for conduct of the meetings will already have been approved when the meetings open.

IBRD AGENDA ITEMS

1. Annual Report for the Year Ending June 30, 1978

Recommendation: To join in noting that appropriate discussion was held of the Annual Report of the IBRD.

2. Financial Statements and Annual Audit

Recommendation: To support a resolution stating that the Financial Statement and Audit Report fulfill the requirements of the respective Articles of Agreement and By-Laws.

(As in previous years, the Audit Report of the IBRD has been prepared by Price, Waterhouse and Company. It has also been reviewed and approved by the Joint Audit Committee of the Executive Directors.)

3. Allocation of Net Income

Recommendation: To support a resolution to transfer to the IDA $100 million out of the Bank's net income for the year ending June 30, 1978 and to allocate the balance to the General Reserve for Losses and Exchange Adjustment.

IBRD net income for FY77 was $238 million, and there were $110 million in foreign exchange gains, making $348 million available for transfer. The transfer of $100 million to IDA will result in an increase in the Bank's General Reserve (currently $1.95 billion) of $248 million.

4. Administrative Budget

Recommendation: To support a resolution stating that the Administrative Budget fulfills the requirements of the respective Articles of Agreement and By-Laws.

(IBRD Administrative Budget for the fiscal year ending June 30, 1979 amounts to $162.4 million compared with actual expenditures during the past year of $148.1 million.)

5. Joint Development Committee

Recommendation: To join in noting the Development Committee report.

6 and 9. Election of Officers and Joint Procedure Committee for 1977-78.

Recommendation: To leave to the discretion of the U.S. Governor, in consultation with the Department of State and other interested members of the NAC, decisions on any questions as to the officers of membership of the Joint Procedures Committee for 1978-79 and as to the Chairmanship of the Bank and Fund Board of Governors for the year following the 1978 Annual Meetings.

7. Executive Directors Administrative Arrangements

Recommendation: The U.S. should join in voting the Administrative arrangements for the Executive Directors.

8. Place and Date of 1980 Annual Meetings

Recommendation: To support a resolution approving the selection of Washington, D.C., as the site of the 1980 Annual Meetings.

10. Application for Membership: To support the resolution admitting Cape Verde to membership in IBRD.

IFC AGENDA ITEMS

1. Annual Report for the Year Ending June 30, 1978

Recommendation: To join in noting that appropriate discussion was held of the Annual Report of the IFC.

2. Financial Statements and Annual Audit

Recommendation: To support a resolution stating that the Financial Statements and Audit Report fulfill the requirements of the respective Articles of Agreement and By-Laws.

(As in previous years, the Audit Report of the IFC has been prepared by Price, Waterhouse and Company. It has been reviewed and approved by the Joint Audit Committee of the Executive Directors.)

3. Administrative Budget

Recommendation: To support a resolution stating that the Administrative Budget fulfills the requirements of the respective Articles of Agreement and By-Laws.

IDA AGENDA ITEMS

1. Annual Report for the Year Ending June 30, 1978

Recommendation: To join in noting that appropriate discussion was held of the Annual Report of IDA.

2. Financial Statements and Annual Audit

Recommendation: To support a resolution stating that the Financial Statements and Annual Audit Report fulfill the requirements of the respective Articles of Agreement and By-Laws.

(As in previous years, the Audit Report of IDA has been prepared by Price, Waterhouse and Company. It has been reviewed and approved by the Joint Audit Committee of the Executive Directors.)

3. Administrative Budget

Recommendation: To support a resolution stating that the Administrative Budget fulfills the requirements of the respective Articles of Agreement and By-Laws.

(The IDA Administrative Budget for the fiscal year ending June 30, 1978 amounts to $111.0 million compared with actual expenditures during th past year of $91.9 million.)

4. Application for Membership. To support the resolution admitting Cape Verde to membership in IDA.

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SCHEDULE OF EVENTS

Monday September 25	9:00 a.m.	-	Briefing of U.S. Delegation Meeting Room No. 2, Sheraton Park Hotel
	10:00 a.m.	-	Opening Ceremonies Address from the Chair Annual Address by Managing Director, IMF Annual Address by President, IBRD, IFC, IDA
	2:30 p.m.	-	Joint Procedures Committee
	3:00 p.m.	-	Annual Discussion
Tuesday September 26	8:00 a.m.	-	Briefing of Press Meeting Room No. 4, Sheraton Park Hotel
	9:30 a.m.	-	Annual Discussion*
	3:00 p.m.	-	Annual Discussion IMF Election of Executive Directors IBRD Election of Executive Directors
Wednesday September 27	9:30 a.m.	-	Annual Discussion
	3:30 p.m.	-	ICSID** Administrative Council
Thursday September 28	9:30 a.m.	-	Annual Discussion
	12:35 p.m.	-	Joint Procedures Committee
	4:30 p.m.	-	Joint Procedures Committee Reports Comments by Heads of Organizations Adjournment

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*Secretary Blumenthal will speak at this session.
**International Centre for Settlement of Investment Disputes.

NOTES:
1. All sessions will be joint.
2. The election of the IMF Executive Directors will be held at 3:30 p.m. followed by the IBRD election.
3. The morning sessions will adjourn by 1:00 p.m. and on Thursday by 12:30 p.m.
4. The afternoon sessions will adjourn by 6:00 p.m.

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LIST OF PRINCIPAL OFFICIAL SOCIAL EVENTS

Sunday September 24	7:00 p.m.	-	Reception by the Chairman Tengku Razaleigh Hamzah Shoreham Americana Hotel
Monday September 25	6:30 p.m.	-	Mr. and Mrs. de Larosière Mr. and Mrs. McNamara Reception for Governors and their Wives in the Fund Atrium Followed by Dinner at 7:00 p.m.
	9:00 p.m.	-	Mr. and Mrs. de Larosière Mr. and Mrs. McNamara Concert for Governors, other Delegates and their Wives John F. Kennedy Center for the Performing Arts The Washington National Symphony Mstislav Rostropovich conducting
Tuesday September 26	6:30 p.m.	-	Reception by U.S. Governor, Treasury Secretary Blumenthal, National Gallery of Art East Wing

(ALL EVENTS BY INVITATION ONLY)

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WOMEN'S EVENTS

Monday September 25	12:15 p.m.	-	Welcoming Luncheon in the Pan American Union Building Hostesses: Mrs. de Larosière and Mrs. McNamara
Tuesday September 26	8:30 a.m. to 1:00 p.m.	-	Breakfast on Capitol Hill Breakfast in the House of Representatives' Rayburn Building followed by a special tour of the Capitol.
Wednesday September 27	10:00 a.m. to 3:00 p.m.	-	Visit to Mount Vernon and Woodlawn Plantation. Tour of the home of the first President of the United States, followed by luncheon at nearby Woodlawn Plantation.
Thursday September 28	8:00 a.m. to 9:45 a.m.	-	Historic Tour of the White House Hostess: Mrs. Michael Blumenthal, wife of the United States Secretary of the Treasury and Governor of the Fund and the Bank. Coffee will be served. Buses will leave the White House for the National Gallery and/or return to the hotel
	9:30 a.m. to 12:30 p.m.	-	Conducted Tour of the new East Building of the National Art Gallery. Special exhibits and a short film presentation on American artists.

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Citation Information

Document Type: Treasury

Number of Pages Removed: 2

Citations: Confidential-NOFORN: Biographical profile, Tatsuo Murayama, June 13, 1978.

Date:

MEMORANDUM FOR: SECRETARY BLUMENTHAL

From: Assistant Secretary Bergsten

Subject: Bilateral Meeting with Murayama, Japanese Finance Minister

Date and Time: September 24, 1978 at 10:00 A.M.

Place: Your suite

Persons expected to attend:

<u>U.S. Treasury</u>
Secretary Blumenthal
Under Secretary Solomon
Deputy Assistant Secretary Widman
Richard Fisher, Executive Assistant to the Secretary

<u>Japan</u>:
Tatsuo Murayama, Finance Minister
Takehiro Sagami, Vice Minister for International Affairs
Michiya Matsukawa, Special Advisor to Murayama
Fujio Matsumuro, Minister (Financial)

Recommended recording officer:

David J. Klock

<u>Checklist of Issues</u>

1. Actions expected at Interim Committee

-- Quotas (Japanese want selective increase)
-- SDR allocation

2. Outlook for the dollar

-- Japan has done all it can
-- Nature of U.S. actions being contemplated

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Name	IMA NYE	IMA SYVRUD	IMA WIDMAN			
Initials / Date	WNN / 9/15	/	/	/	/	/

Form OS-3129
Department of Treasury

-- U.S. view of outlook
-- Concern about advance consultations

3. Prospects for Japanese growth and current account

-- Recent GOJ actions
-- Prospects and timing of shifts

4. Continued U.S. concern over trade liberalization

5. Future of the monetary system

-- European monetary arrangement

6. Export credit arrangement.

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Document Type: Treasury

Number of Pages Removed: 16

Citations:

Confidential: Japan Political Outlook, September 7, 1978.

Confidential-GDS: Japan, Economic and Financial Scene: Overview, undated.

Confidential-GDS: Key Statistics, September 20, 1978.

Confidential-NOFORN: Biographical profile, Mishiya Matsukawa, March 14, 1977.

Confidential-NOFORN: Biographical profile, Fujio Matsumuro, December 6, 1977.

Confidential-NOFORN: Biographical profile, Tatsuo Murayama, June 13, 1978.

Confidential-NOFORN: Biographical profile, Takehiro Sagami, June 29, 1978.