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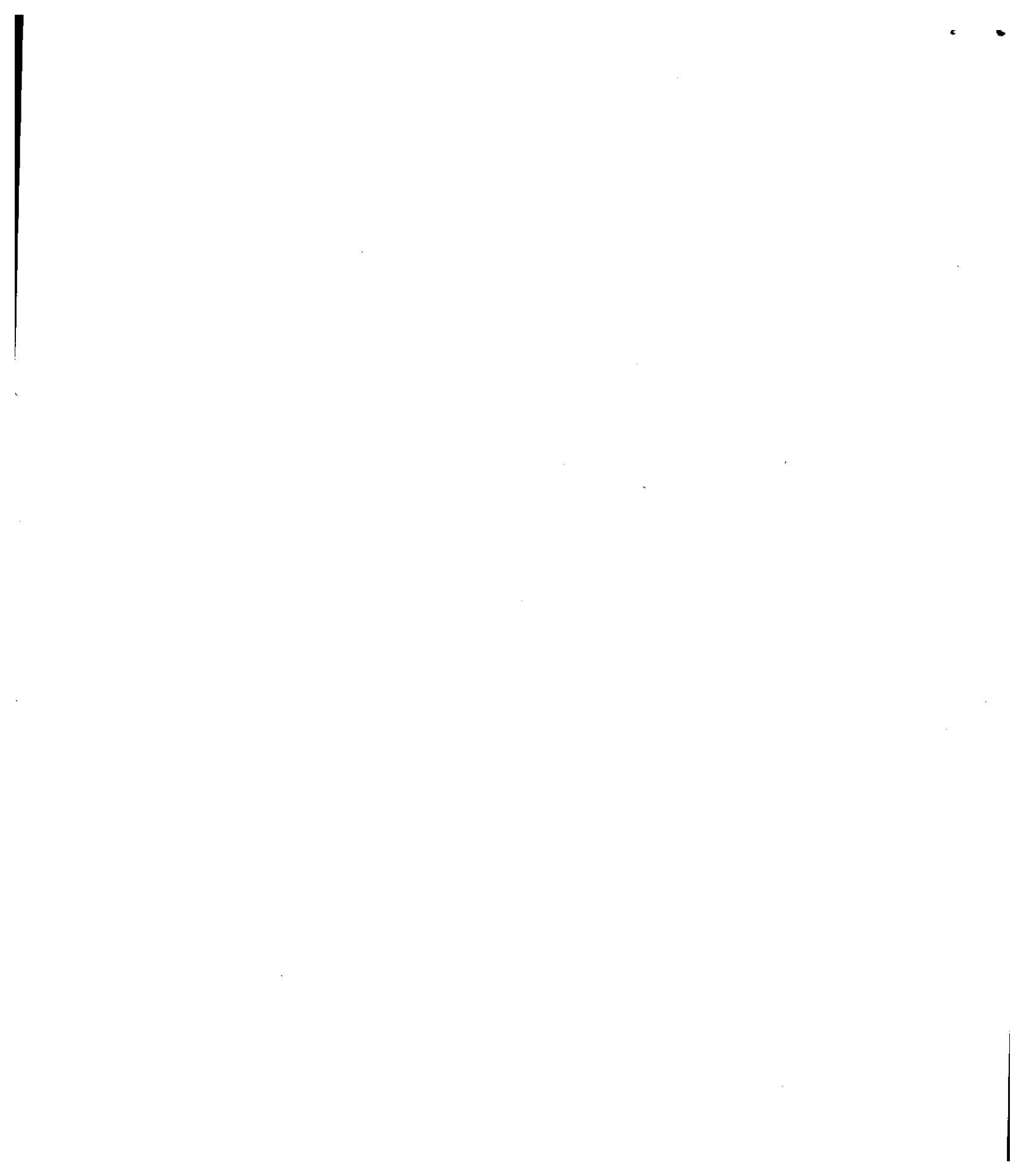
C E P A L

Economic Commission for Latin America
Washington Office



ISSUES THAT WILL POSSIBLY BE RAISED AT THE 1980
INTERNATIONAL MONETARY FUND
ANNUAL MEETING

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ISSUES THAT WILL POSSIBLY BE RAISED AT SEPTEMBER
IMF ANNUAL MEETING

1. The Economic Outlook

A big topic of discussion will be the economic outlook. Generally speaking, the immediate outlook, according to the Fund, is bleak, with stagflation and balance of payments deficits continuing to plague most of the world's oil importers.

a) Growth

The "tax" of higher oil prices will weigh heavily on the world economy. The Fund sees output in the industrialized countries growing by only 1% this year and next (compared to 3.4% in 1979) on account of inflation, public policy measures to counter rising price trends, and the drain on domestic incomes derived from higher oil prices. In 1980 there should be absolute declines in product for the U.S. and Great Britain. Along with the slower growth rates is a pervasive slowdown in productivity growth in many countries which to a large extent can be attributed to structural rather than cyclical factors. The stagflation in the industrialized countries has, of course, serious implications for developing countries because of its direct effect on their growth rates and import prices as well as the indirect effects that can arise from possible reactive policy measures in the industrialized countries, e.g. protectionism.

b) Inflation

The Fund has no formal outlook on inflation, but it will undoubtedly remain a problem, notwithstanding the slower pace of world economic

activity. It is well known that the IMF is preoccupied by the world inflationary picture and this --along with remedial inflationary policies-- will be a major topic of discussion.

c) External positions

The external picture also has few bright spots. Growth of world trade volume is expected to be flat in both 1980 and 1981. Moreover, the oil exporters' current account surplus is projected to rise from 69 billion dollars in 1979 to 115 billion dollars in 1980; nor is the surplus likely to diminish as quickly as it did in the last major round of price increases in 1974. The world "tax" on oil consumption has its counterpart in deficits for importers, and the industrialized countries will see their deficit rise from 10 billion dollars in 1979 to roughly 50 billion dollars in 1980, while the non-oil developing countries will have their deficit rise from 53 billion dollars in 1979 to 70 billion dollars in 1980. The industrialized countries deficit, on the whole, should prove to be relatively manageable since it is concentrated in Germany, Italy and Japan where the current account positions were relatively strong just prior to 1979. The non-oil exporting developing countries, however, are relatively more burdened by their deficits, both because of the absolute size of the deficits as well as because financing must be arranged on top of an already large external debt. Needless to say, there are fears in the Fund that deficits may place strain on the private banking system --which has undertaken most of the recycling-- with consequent adverse effects on the amounts and terms of credit. Of course, adequate finance is the

key to maintaining growth in the developing countries. Given the financing problem, the Fund now plans to take on a larger role in the recycling of surplus oil receipts (see below).

2. New Fund Resources for Balance of Payments Assistance

A major issue will be how the IMF can play a larger role in recycling surpluses. Following directives of the Interim Committee in Hamburg on April 25, 1980, the Fund is pursuing a plan to borrow additional resources for balance of payments loans. The plan calls for the Fund to raise between 7-10 billion dollars over the next 2 to 3 years by contracting resources abroad. The idea is to arrange the loans directly with the surplus oil producers such as Saudi Arabia and Kuwait. Indeed, in late August the IMF's Managing Director, Jacques de Larosiere, visited these countries in order to arrange financing proposals for presentation at the annual meeting later this month. However, the Gulf states proved less than receptive to the plan because of a decision of the IMF and World Bank that would ^{prevent} the attendance of the PLO at this year's annual joint meeting^{1/} Larosiere returned from his trip empty handed. If the PLO issue is not settled relatively soon, the IMF presumably will have to go directly to the eurocurrency markets to raise the new resources.

In any case, the new balance of payments loans will, in effect, be an extension of the existing Supplementary Financing Facility, which means that it will be available only in conjunction with standby agreements involving conditionality and adjustment. The new resources will allow members to borrow up to 600% of their quotas, in comparison with the

^{1/} See point (3) of my memo on the World Bank, of September 12, 1980, for more details on this matter

current limit of 400%. Thanks to recent reforms in Fund, the adjustment program can now be designed for up to 3 years (as opposed to the traditional 1-year program) and repayment of the loans can be over a 10-year period.

The IMF will be securing the additional funds at market interest rates, and thus will have to charge market interest rates on their loans. However, an interest subsidy is contemplated for low income countries, say below 600 dollars per capita. The subsidy will be 4-5 points. It is not clear whether the IMF will seek to have the oil producing countries cover the cost of the subsidy, or whether it will finance the subsidy out of its own resources, for instance using repayments of loans from the Trust Fund. In any event, the subsidy issue is important since the current Supplementary Financing Facility of the IMF has not been attractive to many members because of interest costs that have exceeded 11%. For this reason, the Group of 24 has urged the Fund to include a subsidy account on any new balance of payments assistance. Apparently this suggestion will be heeded.

The expected larger IMF lending capacity is aimed at aiding developing countries in their balance of payments finance, particularly those which have trouble gaining access to commercial banks. Indeed, a larger profile for the Fund is seen as a way to maintain private creditors confidence and to keep an adequate flow of commercial resources to LDC oil importers.

3. Conditionality

The Group of 24 has urged that any new Fund resources be extended with minimum conditionality. Larosiere is, however, firmly committed to

the principle that new resources have strong conditionality and be used to promote adjustment. Thus conditionality may be an issue raised by developing countries in the annual meetings.

Actually, one could argue that the new resources will carry less conditionality than has traditionally been the case; the Fund will be lending much more resources (600% as opposed to 400% of quotas) with longer repayment periods (up to 10 years) and longer adjustment programs (up to 3 years). Undoubtedly this fact will be stressed by the Fund as an answer to those who seek less conditionality.

In 1979 the Fund modified its position on conditionality by establishing new guidelines for its application. One of the key clauses is in paragraph 4, which states that "In helping members to devise adjustment programs, the Fund will pay due regard to the domestic, social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems". It would seem that this concession is in response to criticism from the Group of 24, Group of 77, etc., that the Fund's programs are excessively harsh, overly uniform and fail to take into account the development objectives of the countries and the causes of their balance of payments problems.

Whether the criticism is accurate or not, there could be further discussion of conditionality by representatives of developing countries. Both the reports of the Brandt Commission and URDP/UNCTAD (The Balance of Payments Adjustment Process), as well as Belgrade Communiqué of the Group of 24, stress the need to distinguish the external and internal causes of balance of payments problems. When problems are basically

externally induced --e.g. higher oil prices-- it would be argued that a very "soft" form of conditionality is merited. Also, these groups would like to see the Fund use a more eclectic methodology for tackling the adjustment problem, i.e. something broader than the monetary approach to the balance of payments.

Notwithstanding the new guidelines, the Fund appears not to be very enthusiastic about more reforms in this area. For one thing, the monetary approach to the balance of payments is ideologically ingrained in most Fund staff, and it is difficult to alter the institution's general vision of adjustment. Moreover, the Fund staff argues that its solutions are not uniform and that problems in countries are already dealt with on a unique case-by-case basis. Also, even if a balance of payments problem is beyond the responsibility of a member, it is said that adjustment is required in any case. As far as the period of adjustment is concerned, a common staff position is that it can be easier to jump into a cold-watered pool than it is to wade in, i.e. extended adjustment is not necessarily easier than quick adjustment.

It would appear, then, that the Fund is not too receptive to a further softening of conditionality. The issue may enter debate, but the Fund staff seem to feel that the present guidelines provide sufficient flexibility for their adjustment program.

Finally, it should be added that proposals, such as the Group of 24's calling for the Fund to employ a more pluralistic approach to adjustment, would seem to imply that the Fund would become more deeply involved in public policy-making. The use of general monetary targets allows the Fund to impose adjustment without becoming directly involved

in policy making --the targets are established and it is up to the country to meet them however it wishes. If the IMF were to design a more "customized" adjustment program that truly adapted itself to the unique situation of each country, it undoubtedly would have to take on a more pervasive and detailed role in economic management. This may or may not be desirable; that is certain is that such a fundamental reorientation of the adjustment methodology would take some time to realize.

4. Representation and Voting Rights

The Group of 24 has urged that developing countries gain more representation in the IMF. While this issue may be raised again, there is no expectation in the Fund that advancements will be made in this area. However, a seat for China will probably be discussed, and apparently there is considerable support in the Fund for such a move.

5. The SDR

The Substitution Account appears to be a dead issue at the moment. There will be a discussion of reducing the basket valuation of the SDR and unifying the baskets for calculation of valuation and interest rates --all for the sake of making the SDR a more attractive reserve instrument. It seems that no more SDR allocations are envisioned in addition to those already programmed. The prospects continue to be dim with regard to "linking" SDR allocations to development assistance.

6. Trust Fund

This fund was established from the receipts of gold sales to provide balance of payments assistance on concessional terms to low income countries. The Trust Fund will not expand further since there are no more

gold sales contemplated. However, proposals may arise to use loan repayments to the Trust Fund as finance for subsidies on other IMF lending.

7. Compensatory Finance Facility

The Group of 24 and the Brandt Commission have urged further liberalization of this facility. At the moment it can be used only to cover proven export shortfalls, while developing countries would like to see compensation additionally covering import price increases, falls in import volume, food shortages, etc. These proposals apparently do not enjoy enough support to expect moves that would alter the present makeup of the facility.

8. Seventh Quota Increase

The IMF has agreed to increase its quotas as a way to ensure adequate resources for balance of payments support. However, as of June 30, 1980, only 34% of its members (quota equivalent) have consented to the increase. (It needs 75% to become effective). A major reason for the poor response is that the U.S. Congress has dragged its feet in consenting to the U. S. quota increase. There is a general feeling that not much can be done about this until after the U.S. Presidential elections.

9. Cooperation with the World Bank

With the IMF extending its stabilization programs to 3 years, and the World Bank now offering 5-year structural balance of payments adjustment loans, there is now considerable overlap in the functions of the two organizations. Presumably this requires some coordination. It appears that presently there are no formal guidelines in this regard;

at the moment coordination appears to be ad hoc. The most recent case is Guyana, where the IMF granted a SDR 100 million loan that was paralleled by another large World Bank credit designed to tackle the structural "supply constraint". In discussing this at the Fund, I received the impression that the two organizations were in contact with each other, but with coordination between them being rather informal and not operating under any grand design. The person I talked in the Fund seemed to think that this informal approach was best; he did not feel that establishing guidelines for cooperation would be useful, and suggested that the nature of future Fund/World Bank parallel lending would be flexibly determined on a case-by-case basis. This same individual also felt that guidelines or criteria for formal coordination would not be an issue at the annual meeting. One senses that the two organizations may be leary of too close a coordination for fear that the responsibilities of one organization will be usurped in whole or part by the other. This latter comment of course is of a purely speculative nature.

10. Other Issues

Given the bleak economic outlook, developing countries will undoubtedly intensify their demands for assistance from rich countries. Aside from the issues already mentioned, subjects that almost certainly will be evoked are the poor aid performance of the industrialized countries, protectionism and the need for established guidelines in the area of debt rescheduling and relief. There is no indication that the rich countries will be very receptive to these proposals.

