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THE FUTURE ROLE OF THE
INTERNATIONAL MONETARY FUND
IN LATIN AMERICA:
ISSUES AND PROPOSALS

Edmar Lisboa Bacha

1. INTRODUCTION

Traditionally, the role of the International Monetary Fund in Latin America has been to provide official financing in support of stabilization programs designed to solve balance of payments problems. The 1982 rupture of international financial markets created a new role for the Fund in the region. It is now the conductor which orchestrates the debt rescheduling exercises between the region and its commercial-bank creditors. Rather than the balance of payments flow problem of a single country, the Fund now has to deal with the stock adjustment process for the dollar liabilities of the whole region.

This change in the Fund's role did not go unnoticed. In November 1984 Paul Volcker, the chairman of the Board of Governors of the U.S. Federal Reserve System, described this orchestration role of the Fund as "essential" and observed that "the founders of the IMF could hardly have foreseen this role, and few of us, even a few years ago, could have appreciated the importance it would assume" [1].

Many observers, especially in Latin America, estimate that the return of the region to normal, voluntary borrowing from capital markets is a distant prospect. Hence they are prepared for a long extension of this new role of the Fund in the region. But even those, as John Williamson (1984), who argued that the time for resumed market access "may not be as distant as is still commonly assumed", find that the Fund has a new nearly ~~permanent role to play in the region, as an overseer both of~~ "appropriate" domestic policies and of "prudent" international

financial intermediation.

The broader question raised in this context relates to the compatibleness of debt service payments with the resumption of GDP growth in the region. Here, the IMF could be an advocate of the debtor countries vis-à-vis the industrial world, but the relevant policy decisions are obviously beyond its control. There are nonetheless at least three IMF-specific issues which can be raised under current debt rescheduling arrangements.

There is first the renewed urgency of a change in the nature of IMF conditionality, designed to avoid the "overkilling" of domestic demand, which has been a recurrent characteristic of Fund programs in the region. This is the central topic of this paper, occupying the long section which offers a specific proposal to change IMF conditionality. The second issue relates to the role of the Fund not as a financier, but as a broker between debtor countries and private creditors. Some of the emerging problems in the relationship are dealt with in a very exploratory form in the third section. There is finally the question of the interactions between the Fund and the World Bank, given the "structural" nature of the current balance of payments problems in Latin America. Some aspects of these interactions are dealt within an accompanying paper on the future role of the Bank in Latin America by Bacha and Feinberg.

2. IMF CONDITIONALITY: A REFORM PROPOSAL

In spite of spectacular balance of payments turnarounds, a sequence of revisions and breakdowns have characterized the recent IMF programs in Latin America, because of non-compliance with the domestic targets in these programs. Non-compliance has been in fact a pervasive characteristic of IMF programs around the world. The recent Latin American experience confirms a widely shared perception that there is something wrong with IMF conditionality criteria, and reaffirms the need to improve them [2].

This section offers a proposal for a simple and apparently minor but in our view profound and effective change in the Fund guidelines on conditionality. The following subsection outlines the proposal. The second provides its rationale. The third analyzes implementation details. The fourth lists other guidelines which could profitably accompany the suggested change on conditionality.

2.1. The Proposal in a Nutshell

The following principles are suggested for the establishment, by the Executive Board of the Fund, of new guidelines on conditionality in its lending operations with countries with unconvertible currencies.

A two-tier conditionality system will be instituted, ~~with the first tier composed exclusively of balance of payments or~~ dollar denominated variables. Domestic currency denominated

variables, such as domestic credit and government budget deficits, will constitute a second tier of the new conditionality regime.

Quantitative performance criteria will be established for the variables in both tiers, but an automatic waiver of the conditions for the second tier variables will apply, whenever the conditions for the variables in the first tier are effectively being met. A test is proposed in the next subsection to distinguish between nominal and effective compliance with the first tier conditions. Nominal compliance will not be sufficient for the provision of an automatic waiver, as a temporary favorable shock, rather than effective adjustment, might explain why the first tier conditions are being met when the second ones are not.

This proposal is in tandem with the Articles of Agreement of the Fund, particularly Articles I(v) and V3(a), which only authorize conditionality with respect to the balance of payments, and recognize the need of "special policies for special balance of payments problems", such as those that currently afflict the heavily indebted Latin American countries.

Thus, Article I(v) states that one of the purposes of the IMF is:

To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

In elaboration, Article V3(a) states that:

The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of safeguards for the temporary use of the general resources of the Fund.

2.2. Rationale of the Proposal

Recent L.A. experience with Fund programs demonstrates that the connection may be slim between balance of payments behavior and the domestic performance criteria set by the Fund. This is flagrant in the case of the two largest debtors, Brazil and Mexico. The three-year program with Brazil has now been suspended twice, because the country was unable to meet either the monetary or the fiscal targets of the program, even though all balance of payments targets were consistently overfulfilled [3]. Mexico, on the other hand, met the fiscal targets of its 1983 IMF program with exactitude, but the current account of its balance of payments displayed a surplus of US\$5.5 billion dollars, instead of the programmed deficit of US\$4 billion. In spite of prior claims of the Fund staff to the contrary [4], these two important cases tend to confirm that, more often than not, Fund programs seem to err in only one direction - namely, in establishing stricter domestic performance criteria than necessary to attain the balance of payments objectives of the programs.

The tendency to 'overkill' domestic demand is also suggested in Table 1 (borrowed from Lynn-Ground), which lists the implicit real monetary contraction and the explicit fiscal contraction of recent Fund programs in Latin America. Column (1)

shows the proportional annual change programmed for the money stock, deflated by the yearly inflation rate at the inception of the program. It is only in the second year of the program for Jamaica that a monetary expansion is revealed in the data. As indicated by the figures in columns (2) to (4), these real monetary contractions were programmed at a time when substantial real exchange rate devaluations were occurring in Latin America, hence tending to put at least a temporary upward pressure on observed inflation rates. Although frequently underestimating expected inflation rates, the domestic credit ceilings of Fund programs are at least informed by a technically solid financial exercise [5]. By contrast, the fiscal targets appear to be established in a completely ad hoc manner. This can be grasped from Columns (5) to (7) of Table 1, which present the values programmed for the ratios to GDP of the public sector budget deficits. As pointed out elsewhere, these figures suggest that the Fund acts as if it had a rule of thumb for the ratio to GDP of the budget deficit of a typical Latin American country: "measure its size and cut it in half" [6].

A number of studies of Fund programs in the 60s and 70s claim that these programs cannot shown to have been recessive [7]. This evidence does not necessarily mean that it is only recently and in Latin America that Fund programs began exhibiting a tendency to overrestrict domestic demand. The variable always used in the above studies is domestic output, not domestic absorption. The latter can be "overkilled" without negative effects on domestic output, provided that the trade balance improves sufficiently. A complication arises for this reasoning by the claim of some recent studies that Fund programs on average did not have

TABLE 1
MONETARY AND FISCAL TARGETS OF RECENT IMF PROGRAMS IN LATIN AMERICA

Country and Program Date	Antic- ipated real money stock change (1)	Ex-post real exchange rates (1980 = 100)			Public sector deficit to GDP ratio		
		1981 (2)	1982 (3)	1983/c (4)	1982 (5)	1983 (6)	1984 (7)
Argentina (1/24/83)	-16	143	189	191	14.0	8.0	5.0
Barbados (10/1/82)	...	95	88	85	6.6	...	1.8
Chile (1/10/83)	-29	99	125	138	4.0	...	2.3
Costa Rica (12/20/82)	-45	168	141	124	4.0	2.3	...
Ecuador (7/25/83)	-10	97	107	114	7.5	4.0	...
Guatemala (8/31/83)	...	98	100	100	5.0	...	3.0
Uruguay (4/22/83)	...	105	129	176	8.0	3.0	1.0
Brazil (1/6/83)	-22	93	95	118	16.9	7.9	...
(2/24/83)	-23				16.9	8.8	...
(9/15/83)	...				16.9	15.2	...
Granada (8/24/83)	17.0	8.5	...
Jamaica (4/13/81)	-5a/9b	97	92	87
Mexico (1/1/83)	...	94	137	152	16.5	8.5	5.5
Peru (6/7/82)	-9	91	94	132	4.0	...	2.0
Dom.Republic (1/21/83)	...	101	96	94	4.0	...	3.0

Notes: (1) This corresponds to the implicit target for the money stock, deflated by the observed inflation rate. a/April-December 1981. b/1982. c/January-September average. Source: Lynn-Ground, 1984: Table 4.

any effect on the current account (Pastor Jr), or else had only a limited positive effect on this variable (Gylfason). However, these findings apparently are explained by the fact that both studies group together two very different types of Fund programs, namely, "import liberalization programs" and "import restraint programs". When a separation is made between these two types - as in the Donovan data reported in Table 3 of Loser -, one clearly sees that the trade balance improves dramatically in the later case, even when, on the average for all programs, the trade performance is only marginally better. The excellent trade performance in the import restraint programs recently implemented in Latin America confirms this interpretation.

The tendency of Fund programs to overkill domestic demand is inconsistent with its mandate to avoid "measures destructive of national and international prosperity". It either forces unnecessary domestic hardship or leads to continuous revisions and breakdowns of lending programs. The constant revisions tend to discredit the Fund in the international community. The frequent breakdowns increase the fragility of international credit markets, particularly in cases involving a large debtor as Brazil.

Thus, the proposed change of conditionality guidelines seems to be in the interests of borrowing countries, the international community, and the Fund alike.

2.3. The Proposal in Detail

Performance criteria on dollar denominated variables, such as international reserves and foreign borrowing, are already a feature of Fund programs. In the absence of a capital flight reversal, these criteria effectively constrict the current accounts, as direct investment is generally of small magnitude and slow to react. The current account itself does not appear as a performance criteria, but as a target of the programs. The reason is the Fund's staff claim that the current account is a policy result or objective, not a policy variable or instrument. Thus, given the exchange rate, the staff prefers to attack the current account through domestic policy variables, such as the fiscal deficit.

However, export promotion and import replacement are object of government policy in developing countries, both through administrative controls and market-related instruments. The trade balance can as well be viewed as influenced by such trade policies, as affected by attempts to reduce government budget deficits. The exchange rate is perhaps the most important instrument for export promotion and import replacement, but it is far from being the only one, specially in developing countries with a tradition of active government involvement in economic affairs. There are many measures and instruments which a country may act on to alter its trade performance, while complying with its obligations with the international community, under the IMF and the GATT agreements. The situation is not significantly different from the innumerable policy alternatives that a government has to

reduce its budget deficits. The Fund has always made a point not to enter the "microeconomics" of government finance. A similar plea

may be made, that it should refrain from entering the details of a borrowing country's trade policies, while establishing performance criteria for its trade (or current account) balance, in a revised conditionality system [8].

A friendly critic might ask: how the Fund could know that a trade balance improvement results from domestic policy rather than an act of God, before it is allowed to go into the second tier of conditions? The answer starts with the observation that, under current forecasting and econometric techniques, the state of data availability in Latin America already allows one to be at least as precise in the estimation of export and import functions, as in the demand function for money. Knowledge of the latter is an essential ingredient for the "financial exercises", which link the targeted variations in international reserves to the performance criteria for domestic credit expansion in Fund programs.

Expected trade and current account balances can be derived from such import and export functions, once appropriate values are plugged in for the relevant exogenous variables. These estimates would be an additional ingredient to help the Fund establish 'second tier conditions' on variables such as exchange rates, domestic credit, and fiscal deficits. The trade deficit itself would figure among the 'first tier conditions'.

As the program develops, observations become available both on the evolution of the current account and on the exogenous variables entering the estimated functions. Hence, estimates can be made of the contribution of exogenous variables (including the specified domestic policy instruments) to explain the differences between the observed and the programmed external

account. The residual difference might serve as an estimate of the contribution of unspecified domestic policy instruments.

Suppose the current account turns out better than expected. Then this method would in principle permit an evaluation of the relative importance of external variables, domestic supply shocks, and domestic policies to the observed result. This should allow the Fund staff to decompose the factors associated with the observed current account performance [9]. But then what should the Fund do, if the 'second tier' criteria are not being met? Consider three possibilities. One would be that the current account improved by sheer and reversible luck, such as a temporary world trade boom or a bumper crop. In this case, the staff would conclude that compliance was only nominal, but not effective. The government would then be required to stiffen its expenditure contraction and switching policies for a continuation of the program. A second possibility would be that the country was hit by permanent luck, such as the discovery of new oil wealth. Then, compliance would be pronounced to have been effective, the domestic criteria would be loosened up, and the program would continue normally. A third possibility would be that nothing extraordinary occurred with the identified exogenous variables to explain the observed outcome. In this case, the country would be given the benefit of the doubt, the domestic performance criteria would be pronounced to have been too tight, and the program would proceed as in the second case.

These procedures, while enforcing an adequate degree of domestic austerity, should substantially reduce the number of ~~waivers and breakdowns in Fund programs, hence contributing to~~ the stability of international financial markets and the economic progress of borrowing countries.

Before concluding we should deal with two objections which might be raised by the proponents of the monetary approach to the balance of payments.

The first is that the analytical foundations of the proposed approach are weaker than those of the neoclassical approach, currently used by the Fund. Perhaps, but not that weaker. If disequilibrium is the problem, a theoretical approach allowing for disequilibrium conditions should be employed, rather than the traditional market equilibrium method of neoclassical economics. Starting with the pathbreaking contributions of Patinkin, Barro and Grossman and Malinvaud, this alternative method is now available. An example is provided in a recent paper by Arida and Bacha. That paper derives a disequilibrium balance of payments model, in which both the IMF 'classical' approach, and the ECLA (United Nations Economic Commission for Latin America) 'structuralist' approach appear as special cases. To put it in an oversimplified form, in a 'classical' context, in which aggregate supply is fixed, demand switching alone is incapable of improving the trade balance, if demand contraction is not exercised. Under these conditions, the traditional Fund medicine appears appropriate. However, in 'structural' disequilibrium situations, in which aggregate supply is variable, demand switching may improve the trade balance independently of demand contraction. It is also argued in that paper that conditions may arise in which trade policy instruments, such as export subsidies (and, by extension, import tariffs) are more effective than real exchange rate devaluations to improve the external accounts. Our revised

conditionality criteria would operate as required in all cases, whereas the IMF approach would work appropriately only in cases of

'classical' balance of payments deficits.

A second objection is of a practical nature. Our approach is more complicated than current Fund practices, the simplicity of which would be one of its main virtues. Indeed our approach is more complicated, because it adds something on top of the 'financial exercises' of the Fund. But it does not seem unworkable under current econometric practices and data availability conditions, and it would solve a major problem with current IMF stabilization programs. The benefit to cost ratio seems to be significantly higher than unity.

2.4. Other Guidelines

The revised conditionality guidelines proposed in this paper elaborate on suggestions apparently first offered in Diaz-Alejandro 1983 [10].

The difference is that this author wants the Fund to pay exclusive attention to balance of payments variables, whereas our view is that effective balance of payments adjustment does require the establishment of conditions on policy variables controlling domestic absorption, although not with the same level of importance as the conditions on variables directly pertaining to the balance of payments.

The new guidelines might profitably be adopted together with a number of helpful suggestions which have recently been made by different authors, such as the following:

(1) The Extended Finance Facility, which has been nearly abandoned in recent Fund practice, should be reactivated, allowing a longer time frame for Fund stabilization programs as a matter of course (Dell 1983, Killick, Williamson 1983a).

(2) Instead of restricting the Compensatory Finance Facility as it did in 1983 (Dell 1984), the Fund should liberalize and expand it with the objective of applying the same kind of regime to both imports and exports of goods and services, including interest payments (Dell 1983 and 1984). This expansion of the Facility would facilitate the establishment of conditionality criteria contingent on the state of the world economy (Cooper commenting on Kenen's paper).

(3) Repayment schedules should be made flexible, varying according to the balance of payments needs of borrowing countries, rather than being fixed for all countries at all times. This is particularly important in the near future, when a considerable volume of Fund credits, which were extended in the 1981-84 period, will start being repaid (Kenen).

(4) Rather than the Fund preparing drafts for the Letters of Intent, "inverted conditionality" should prevail, with the borrowing country submitting its own adjustment program to the Fund, which would provide technical advice if requested to do so. This would facilitate the preparation of "taylor-made" programs which would replace the Fund's "packages" (Helleiner, Killick, Steward).

(5) In accordance to current practice in monetary targeting in industrial countries, performance criteria should be fixed as a range of values, rather than being set as single-point

targets (Dell, Killick, Williamson 1983a).

(6) Conditionality criteria contingent on domestic inflation rates should prevail for domestic currency magnitudes, specially in countries with high and volatile inflation rates, in which indexing is widespread. More generally, if the balance of payments is on target, the Fund should not require additional monetary stringency in order to fight inflation, for this is not its order of business. To avoid the negative effects of domestic inflation on the trade balance, the Fund should instead insist that borrowing countries pursue a 'crawling-peg' exchange rate policy (Bacha 1983, Williamson 1983a).

3. DEBT RESCHEDULINGS AND THE FUND

Traditionally, the Fund's conditionality was attached to the promise of additional financing not only from the Fund itself but also, through its seal of approval, from other creditors as well. Pastor Jr., for example, finds that the main favorable impact of past Fund programs was not on the current account but on the capital account of borrowing countries.

This role gained extraordinary importance in the first phase of the debt crisis. In a major departure from previous experience, the Fund became actively involved in negotiations between a debtor country and its commercial-bank creditors. The IMF became a financial orchestrator, imposing conditions not only ~~on borrowers but also on lenders, by making the commitment of its~~ own resources contingent on the banks' commitment to new lending and to the rescheduling of old loans. This concerted lending

brought the Fund into much closer proximity with private financial intermediaries than at any earlier time in its history.

Because of the critical role of its seal of approval for private debt reschedulings, the Fund became much more powerful in the region than in the past. But this power did not come without its costs. First, as illustrated by the Fund's experience in Brazil since 1983, it started facing a new dilemma when its lending conditions are not met by a big debtor. If it cuts a member off, it can precipitate a crisis of confidence. If it fails to do so or too readily agrees with a loosening of the conditions, it may tarnish its seal of approval.

Second, and more seriously from the point of view of borrowing countries, the Fund started running the risk of adapting its own standards to those of the private banking community. In the words of Kenen (p. 46):

"It the Fund is in danger of attaching too much weight to bankers' standards of creditworthiness and too little weight to other desiderata, having to do with the optimal speed of adjustment, the proper choice between switching and cutting expenditure, and the need for longer-term policy reforms that go by the name of 'structural adjustment'. What sorts of policy commitments would the Fund be endorsing currently if its own resources and its members' drawing rights were large enough for members to dispense with additional bank loans? The question cannot be answered but it is worth pondering."

These problems are heightened in the second phase of the debt crisis, as Fund lending ceases but the debt problem remains, with private bankers still unwilling to lend to Latin America on a voluntary basis. At this stage, traditional IMF conditionality cannot apply since its own funds are not at risk. Hence, we have a situation of private loans being implicitly

guaranteed by the IMF seal of approval on a member country's policies.

The delicate nature of this new partnership is revealed in the arrangements for the long-term rescheduling of private debts to Mexico. Close and comprehensive monitoring procedures of Mexican economic policies and performance are set up as part of this agreement. As part of these monitoring procedures, Mexico will request an enhancement of the annual consultations which member countries regularly carry out with the Fund, as provided by Article IV of the Fund's Articles of Agreement.

In terms of this understanding, the Fund staff will include in its consultation report a summary of the discussions between Mexico and the Fund on the country's financial and economic program and the staff's appraisal of that program. This report will also (i) comment specifically on whether the objectives and targets of the program are internally consistent, and (ii) address the compatibility of Mexico's financial and economic program with sound and sustained economic growth and with a viable external payments position consistent with continuing debt service. In addition to the annual Article IV consultation report, Mexico will request the Fund to conduct a mid-year review of the performance of the Mexican economy and to prepare a report based on this review. The reports to be prepared by the Fund staff after each six-month review will evaluate the performance of the Mexican economy on the same basis as applicable to the annual review, and will contain a ~~description of the country's main economic developments, a summary~~ of the policy discussions with the Mexican authorities, and the conclusions reached by the Fund's staff in its evaluation. All

reports will be submitted to the Executive Board of the Fund. Mexico is obliged to submit to the Banks, within the time periods specified in the amendment, the IMF annual and mid-year Article IV consultations reports delivered by the IMF to Mexico pursuant the monitoring procedures.

The Majority Banks [11] will be able to declare an Event of Default under the Agreement if in their judgement they determine, based on the comments and conclusions expressed in the IMF annual or mid-year Article IV consultation report, that the implementation of Mexico's financial program is materially incompatible with the country's sound and sustained economic growth and with a viable external payments position consistent with continuing debt service.

Apparently, the Mexican authorities' willingness to comply with these procedures seem to derive from their perception that this will help to accelerate Mexico's return to normal market access to external sources of finance. This belief is made evident by these authorities' willingness to agree with another loan covenant according to which if, as a result of material deterioration in Mexico's financial condition, Mexico is unable to meet its requirements for external resources through normal market channels, it will seek to cover the shortfall through non-bank sources, such as the IBRD, the IDB, the IMF, and official bilateral sources.

Whether other Latin American countries will also agree with such loan covenants is a moot point. They are certainly case of much concern at least for the governments of Argentina, Brazil, and Colombia. The position of the IMF staff as international

civil servants is also delicate. For they belong to an institution designed to serve its member countries, not being there - in the off-the-record words of a high ranking member of the staff - "to play the role of watchdogs for the international financial community".

A cynical attitude might be adopted that this is just a game of mutual self-deception, with all participants knowing all too well that monitoring without financing cannot be effective, that the Fund will never pronounce Mexico non-compliant, and that the Banks will never call an Event of Default. In this interpretation, it is only the U.S. Government (or, rather, the U.S. Congress) which is being misled by this masked ball. For the ultimate guarantor of the agreement is neither the Mexican government nor the IMF but the U.S. Treasury.

Cynicism apart, what can be said is that current arrangements for the IMF participation in the long-term rescheduling exercises are rather unsatisfactory for all parties concerned. But this is probably only a reflection of the fact that current mechanisms to deal with the debt problem leave much to be desired. Which is a topic for another paper.

4. SUMMARY

The future role of the IMF in Latin America has been determined by the 1982 debt crisis. Besides overseeing ~~stabilization programs, the Fund now has to orchestrate the debt~~ rescheduling exercises of the region with its commercial-bank creditors. Before the crisis, the Fund dealt with balance of

payments flow problems of single countries. It now has to help organize the stock adjustment process for the dollar liabilities of the whole region.

The broader question raised in this context is the compatibleness of debt service payments with the resumption of GDP growth in the region. IMF-specific issues which need to be tackled are a reform of the IMF conditionality system, the establishment of rules of the game for the intermediation role that the Fund is now playing between debtor nations and private creditors, and the nature of the interactions between the Fund and the World Bank.

This paper deals mostly with a proposal for a reform of the system of IMF conditionality, although preliminary observations are offered in Section 3 about the role of the IMF as a broker, based on the recent experience of the Mexican debt rescheduling agreement.

New guidelines for Fund conditionality are proposed in Section 2. A two-tier conditionality system would be established, with the first tier composed exclusively of balance of payments variables. Domestic currency denominated variables, such as domestic credit and the fiscal deficit, would constitute a second tier of the new conditionality regime.

Quantitative performance criteria would be established for the variables in both tiers, but an automatic waiver of the conditions for the second tier variables would apply, whenever the conditions for the variables in the first tier are effectively being met by the borrowing country.

Monitoring procedures are contemplated in the paper, for an evaluation of the contribution of domestic policies to observed improvements in the trade balances. These procedures, while guaranteeing an adequate degree of domestic austerity, should substantially reduce the number of waivers and breakdowns in Fund programs, hence contributing to the stability of international financial markets and the economic progress of borrowing countries.

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FOOTNOTES

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1. Remarks before the American Swiss Association, New York City on November 29, 1984; mimeographed press release. Apud Bryant, p. 66.
 2. The relevant evidence is collected in Killick, which also discusses a far ranging alternative to current IMF conditionality practices. Recent critiques and suggested reforms of IMF conditionality are presented in Dell, Diaz-Alejandro 1983 and 1984, Helleiner, Kenen, Spraos, and Williamson.
 3. See Bastos Marques for a detailed exposition of the Brazilian program.
 4. As recently as 1984, Walter Robichek is read to claim that "if the programmed credit ceiling is observed, the departures from the implicit balance of payments target will of necessity equal the difference between the projected and the actual change in the pertinent monetary variable; and if the project is reasonable, it is as likely that the balance of payments outcome will exceed the target as that it might fall short of the target" [Muns: 72].
 5. For a critical review of this financial exercise, see Bacha 1984.
 6. This point was made in Bacha 1984, and in Lynn-Ground.
 7. For a review of these studies and additional tests, see Killick. More recent analyses of Fund programs are Gylfason and Pastor-Jr.
 8. This would require the Fund staff to be more observant of Article XIV, Section 2, of the Articles of Agreement, which authorizes member countries "to maintain and adapt to changing circumstances the restrictions on payments and transfers for current account transactions that were in effect on the date in which it became a member." Moreover, Section 2 makes it clear that it is the members and not the Fund which should decide on the opportunity of withdrawing such restrictions, "as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the general resources of the Fund." Contrary to the letter of these clauses and to spirit of the "scarce currency" clauses of the Agreement, currently the Fund staff is imposing to member countries the abolishment of exchange restrictions as a frequent "qualitative" performance criteria of Fund programs.
 9. Decomposition exercises along these lines have in the past been made by Balassa Bacha 1985, and Mitra, among others.
 10. See also Diaz-Alejandro 1984 and Spraos.
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11. These are defined as those Banks having more than 55% of the outstanding advances. But Banks having 33% of such advances may trigger Bank votes on an Event of Default.

TEXTOS PARA DISCUSSÃO

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