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GROUP OF TEN

Issues Raised by the Transition in Central and Eastern Europe

A Report to the Ministers and Governors by the Chairman of the Group of Deputies

April 1991

GROUP OF TEN Rome, April 23, 1991

LETTER OF TRANSMITTAL

Mr. Chairman,

In response to the mandate contained in your letter of December 26, 1990 to the Ministers and Governors of the Group of Ten, the Deputies examined the issues arising in connection with the transition in Central and Eastern Europe at their meeting of March, 9. The wide-ranging discussion was informed by background papers prepared by the IMF, the World Bank, the Commission of the European Communities and the OECD. Representatives from each of these organisations, the BIS and the European Bank for Reconstruction and Development attended the meeting.

The meeting covered all the issues outlined in the mandate and I am glad to report that a broad consensus emerged among the Deputies on how these issues should be addressed.

In view of their work commitments and in order to meet the April deadline, the Deputies decided that the report of their discussion be prepared under my own responsibility.

Accordingly, I have pleasure in transmitting this report, which I believe contains a full description of the main views that were expressed. Inevitably, the emphasis placed on specific issues reflects my own understanding of the sense of the meeting and may not capture all the nuances expressed by individual Deputies.

Lamberto Dini

Chairman, Group of Deputies

The Honorable Philippe Maystadt
Minister of Finance, Brussels

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INTRODUCTION

1. The Deputies of the Group have been instructed by Minister Maystadt, Chairman of the Group of Ten, to prepare a short report on issues related to the transition in Central and Eastern European Countries (CEEC), including such topics as "the improvement of the analytic framework for assessing the reform process, the role to be played and the priorities to be pursued by the Bretton Woods institutions, the appropriate mix of external financing and policy reforms, the type of conditionality to be applied and the most effective way to use scarce multilateral sources and to coordinate their use with bilateral and private sources, given the magnitude of the financing needs we are expected to face".

2. The Deputies did not specifically consider the situation of the Soviet Union because the USSR is not a member of the Bretton Woods institutions and because the issue has recently been addressed in "A Study of the Soviet Economy" prepared at the request of the Houston Summit. In the course of their discussion, however, the Deputies noted that the situation of the USSR had a bearing on the economies of the CEEC and that some of the topics discussed in this report also apply to the Soviet Union.

Chapter I

POLICY ISSUES OF THE TRANSITION

3. Deputies were of the opinion that the ultimate policy aim of both their countries and the CEEC themselves was the transformation of command economies into market-oriented ones, capable of attaining stable self-sustained growth and of attracting spontaneous private capital inflows on a scale commensurate with their long-term development needs.

4. At the outset, the Deputies underscored their conviction that the primary responsibility for the transformation lay with the countries themselves and that external assistance should be seen as complementary, no matter how indispensable. Deputies were of the view that large-scale private inflows were unlikely in the early stages of reform, but would materialize once investors were confident that the institutional framework of a market economy and the conditions for sustained growth were in place.

5. Deputies agreed that the challenge confronting the CEEC would require the adoption of medium-term strategies of economic reform and the consolidation of democratic institutions. The economic requirements included the adoption of appropriate macro policies and structural reforms designed to establish a free enterprise economy; the political requirements included respect of human rights, the introduction of multi-party parliamentary systems and the holding of free elections.

6. The Deputies exchanged views on economic policy issues under three main headings: the appropriate balance between macroeconomic stabilization and structural reforms, and the speed at which structural reforms should proceed and their sequencing.

7. They agreed that macroeconomic stabilization was essential for economic reform and emphasized that an unstable macroeconomic environment distorted the price signals on which a market economy relied and could lead to crises which would undermine support for the reform process. Accordingly, the Deputies underscored the importance of establishing control over budgets, monetary conditions and inflation at the outset and of losing no time in carrying out the institutional and structural changes needed to improve the effectiveness of macroeconomic tools. They noted that the overhang of forced savings could create uncertainty in gauging the appropriate stance of monetary and fiscal policies during the transition from a system of controlled prices and shortages.

8. Deputies felt it was appropriate for the IMF to be closely involved in the design of macroeconomic adjustment policies and to play a central role in this area. They were informed that Fund programs provided for the adoption of strict demand management policies to prevent price rises stemming from the removal of controls, reductions of subsidies and exchange rate action from becoming embedded in the underlying rate of inflation. The cost of stabilization, in terms of lower output and employment, depended on the flexibility

and adaptiveness of the supply side, which at the moment was considered to be low.

9. There was general agreement that macroeconomic stabilization had to go hand in hand with structural reform and that its implementation would confront policymakers in both the CEEC and industrial countries with novel problems in the years ahead. The Deputies noted that knowledge about how to transform a command economy into a market economy was at present inadequate, but that experience was building up little by little. They agreed that there was no single blueprint for reform, and that countries' special features made a case-by-case approach necessary: some CEEC had been experimenting with market-oriented reforms for several years; others had yet to introduce them. Deputies were also convinced that there was no one best model of a market-oriented economy to duplicate.

10. The Deputies were in agreement that structural reform should proceed as rapidly as possible and across a broad front. Experience indicated that piecemeal reforms tended to be ineffectual or counterproductive. They were of the view that a "critical mass" of reform in various areas had to be achieved before growth could become self-sustaining. They noted that structural adjustment programs could entail large financing needs in the short term since experience showed that the immediate costs of moving to a market economy were substantial and the extent to which optimal policies could mitigate them was unclear. Nevertheless, they felt that explicitly gradual programs of structural reform would prove far more costly

over the medium term because the effectiveness of any one program depended in practice on many others also being in place. Deputies were also of the view that gradualist programs would run a greater risk of being reversed because of the longer period of economic hardship before reform bore its fruits.

11. Some Deputies voiced concern about the time required even for “big-bang” structural reform programs to result in self-sustaining growth. There was general agreement that achievement of self-sustaining growth in the CEEC would require great perseverance, just as it had in other countries receiving official multilateral assistance — and indeed in the advanced industrialized democracies themselves. Deputies accepted that the economic costs and political difficulties involved in reform would be great. However, they regarded it as essential that assistance from the international community should be directed towards investment and renovation rather than the maintenance of living standards, and that it should not be on such a scale as to engender unrealistic expectations regarding future levels of assistance, which was intended to accelerate reform, not substitute for it.

12. Deputies did not hold strong views about the order in which specific structural reforms should be pursued, but noted the need to respect the sequence required by macroeconomic stabilization policies. For example, reform of the banking system would be required in many countries to ensure the effectiveness of monetary policy. They felt that even though economic theory provided some indications

about the sequencing of reforms, experience showed that there was much to be gained by pursuing reforms simultaneously across a broad front.

13. Deputies discussed at length the types of structural reforms they felt essential for the CEEC. First and foremost, they emphasized the importance of establishing full private property rights. They argued that without these basic steps a market economy could not begin to function. Indeed, the absence of such rights was the chief feature distinguishing a command economy from a market-based one. Establishing private property rights would require major legislative changes in most of the countries involved, and Deputies noted that there was very little experience of trading in property rights in most countries in the region and virtually none in some. It was therefore encouraging that several CEEC had forged ahead in this field, and others were about to do so.

14. As well as providing the foundation for a market economy, the establishment of markets for private property rights was regarded as a necessary condition for attracting private capital. In the view of the Deputies a further reason for emphasizing the importance of private ownership concerned the possibility of privatizing state-owned enterprises, which, Deputies agreed, offered the best route to a productive system that relied on market signals rather than centralized planning and monopoly. The restructuring of state enterprises and the attendant increase in financial discipline were regarded as essential in order to create an environment compatible with efficient market

mechanisms and relieve the banking system and public finances of the burden of loss-making enterprises. In any event it was important that state-owned enterprises should be subjected to strict budget constraints from the start.

15. Deputies noted, however, that private ownership could flourish only to the extent that there were individuals willing and able to shoulder the risks inherent in running privately-owned businesses in a truly market-oriented economy in which the "soft-budget" option was no longer available. It was felt that management that had only had experience of a centrally planned environment would find it difficult to adapt to the radically different imperatives of a free market. The experience of the G-10 countries was that the difference between the success and failure of an enterprise in a market environment hinged on its "management culture", and that time was needed for this to take root. Deputies also noted that private ownership and market-based principles implied the possibility and even the desirability of foreign participation in newly privatized or established enterprises in the countries in question.

16. Deputies underscored the crucial importance of establishing a market-based price system in the CEEC economies. They noted that the effect of such a radical structural change would be to raise the general price level, posing problems for the framing of appropriate macroeconomic stabilization programs. However, they were also convinced that a market-based price system, besides ensuring an

efficient allocation of resources, was a necessary condition for the monitoring of macroeconomic stabilization measures.

17. Deputies stressed that the most efficient way of ensuring a rapid and relatively orderly transition to a market-based price system would be for the countries concerned to open their markets to competition from other countries at world prices. Deputies acknowledged that, in practice, exposing economies to the full force of international competition was likely to prove difficult. Even fully-fledged market-oriented economies continued to find that particular goal politically difficult to achieve. They underscored the importance of OECD countries setting a good example in this area, inter alia by bringing the Uruguay Round to a successful conclusion. They agreed that the wrong signals would be given if OECD countries did not open their markets to imports from the CEEC once these had instituted market-based price systems. The CEEC could only be integrated into the international economic system — their ultimate policy aim — if they were allowed and encouraged to exploit their comparative advantages to the general benefit. Deputies accordingly agreed that all available channels, including the international agencies, should be used to monitor and publicize significant barriers to imports from the CEEC, as well as measures or proposals to introduce new barriers or strengthen existing ones.

18. Deputies also underscored the importance of a root and branch reform of the financial systems of these countries, with the aim of achieving a clear separation, as in the industrialized democracies,

between central banking and monetary policy functions on the one hand, and commercial intermediation on the other. Experience showed the desirability of establishing a truly independent central monetary authority with a clear commitment to price stability and no mandate or powers to lend directly to the private or state-owned productive sectors. Commercial banks should be given primary responsibility for taking deposits and lending at their discretion and risk in domestic currency and foreign exchange.

19. An area where Deputies regarded structural reform as a useful complement to other programs was that of the social security system. Here the problem was judged to be one of steering an appropriate path between the risk of blunting incentives to work and save and that of provoking a social backlash against the entire program of structural reform in the event that many individuals — through no fault of their own — were faced with large and lasting cuts in their living standards. It was agreed that social programs should be designed to provide the maximum incentive for individuals to respond to market forces during the inevitably painful transition period, since an excessively high degree of social protection would compromise the successful outcome of the entire structural reform program and unnecessarily prolong its duration.

20. Deputies exchanged views concerning appropriate exchange rate policies for the CEEC during the transition period. They underscored the fact that, until market-based price systems had been established and economies opened to international competition, it would be

impossible to determine sustainable exchange rates. Furthermore, they recognized that the success or failure of a program would depend more on the wage, fiscal and monetary policies adopted than on the choice of the exchange rate regime. Some Deputies noted, however, that the discipline conferred by fixed but adjustable exchange rates under the Bretton Woods system had proved to be of considerable aid in stabilizing the economies of Western Europe after World War II. In this connection the view was also expressed that the CEEC could reap important benefits by tying their currencies to the EMS in due course and the Deputies agreed that the IMF should give careful consideration to the question of the appropriate exchange rate systems for the CEEC.

21. A number of Deputies also raised the question of regional cooperation among the CEEC. It was noted that economic and financial cooperation in the countries of Western Europe after World War II had proved to be of lasting and incalculable value. Some Deputies argued that some form of regional cooperation should perhaps be envisaged for the CEEC as a condition for receiving official multilateral and bilateral assistance. Other Deputies felt that such a condition would be difficult to apply and could be resented by the countries in question, following their experience with the COMECON.

22. The Deputies also discussed technical assistance to the CEEC. There was unanimous agreement that the provision of such assistance, which was already taking place, was one of the most important and

powerful forms of support that the international community could provide. They underscored the importance both of technical assistance in helping the administrations of the CEEC countries set up financial institutions and tax systems and of advice on privatization programs, price reform and how the public sector should operate in a market-oriented system.

Chapter II

FINANCING REQUIREMENTS AND ASSISTANCE

23. The Deputies reviewed the probable financing requirements of the CEEC in the light of information and considerations put forward mainly by the IMF and the World Bank. In particular, they examined the possibility of the CEEC needing to raise funds on top of those provided by the international organizations for an extended period.

24. The Deputies noted that both the adjustment and financing needs of the CEEC had risen sharply as a result of reform measures and adverse external shocks. While in principle the switch of COMECON trade to world prices, with settlement in hard currencies, was to be welcomed, in practice it was likely to impose large additional costs on the CEEC's balance of payments in the short run. Terms-of-trade losses resulting from this switch were estimated by the Fund and the World Bank to be on the order of 20 per cent and equal to about 2 per cent of GDP in Romania and to 7 and 8 per cent in Czechoslovakia and Bulgaria. The CEEC were also facing uncertain and sharply deteriorating external conditions, in particular the economic disruption in the Soviet Union, which might well result in a significant fall in the demand for CEEC manufactures.

25. In addition to the deteriorating external situation, a number of other factors were to be taken into account in judging the appropriate mix of financing and adjustment in each country. These included: the

size of the initial macro-economic imbalances and the amount of external debt; the speed at which the supply side of the economy was likely to react to structural reforms once they were implemented; the prospects for foreign direct investment and other private capital flows; the need to build up reserves to support trade liberalization and the introduction of convertibility; and, finally, the extent to which the population would tolerate the initial impact of adjustment programs.

26. Bearing this in mind, the representatives of the Bretton Woods institutions were of the view that it was not practical to make detailed forecasts of financing needs beyond the very short term. The uncertainty surrounding the above factors meant that any estimates or projections of future financing needs would be subject to correspondingly large margins of error. However, they noted the fragile external position of most of the CEEC at the end of 1990. It was also clear that the external shocks to which these countries were being subjected would imply sizable current-account deficits in 1991, even though Fund programs already in place involved substantial adjustment measures. According to IMF estimates, the five CEEC countries, excluding Yugoslavia, might each record a deficit of between $1 billion and $2.5 billion this year. Such figures would represent significant proportions of GDP, as high as 9-10 per cent in the case of Bulgaria. In addition, Bulgaria, Hungary and Poland faced heavy amortization obligations in 1991, totaling approximately $7 billion. Over and above these needs, there was an urgent requirement to build up reserves.

27. The IMF estimated that the overall financing requirements of the five countries might come to some $23 billion in 1991. Of this total the Fund expected to disburse up to $5 billion under various programs and facilities during the year. The World Bank was expected to grant both project and policy-based loans and parallel financing. The negotiated programs also assumed that substantial support would be provided by the European Community and other members of the G-24. In addition, some financing could take the form of debt relief from both private and official creditors to certain of these countries. Finally, it was not clear what volume of financing could be expected from the settlement of CEEC claims on the Soviet Union dating back to the COMECON. In practice, the CEEC countries might be obliged to grant supplier credit to the USSR in order to maintain the flow of their exports. Looking beyond 1991, the Deputies were told that the medium-term financing needs of some of the CEEC would remain large, while in other cases exceptional assistance would be either not needed or substantially reduced.

28. Deputies thought that programs of financial assistance to the CEEC should help to remove external impediments to the transition process while maintaining effective incentives to pursue macro-economic adjustment and push ahead with the domestic structural reforms that are indispensable, not least to attract private capital. The Deputies discussed the difficult issue of defining the financial needs of the CEEC during the transition and noted that estimates of financial requirements could not be taken as absolute amounts of finance to be raised without a clear analysis of

alternative policy scenarios for dealing with these countries' extraordinary economic and balance-of-payments needs. For these reasons many Deputies cautioned against the notion of automatic "gap-filling", whereby multilateral or bilateral official assistance would be required to cover all foreseen financing needs.

29. It was the opinion of the Deputies that this broad perspective pointed to the possibility of, as well as the need for, a gradual shift from official support to autonomous private sector financing. While transition would require far more external resources than the official sector could provide it would also attract autonomous private capital flows, of which the first element would most likely be foreign direct investment. In the meantime, official creditors should move as quickly as possible from balance-of-payments financing to more direct support of reform efforts, and in the end prepare to leave the stage altogether. The more convincing the reform and adjustment efforts were seen to be, the sooner private flows would be forthcoming.

30. Deputies stressed the need to make clear that exceptional official assistance could only be limited and temporary. This was particularly true of G-24 support but also of the exceptional use of Fund resources, even under EFF programs, in view of the need to preserve the revolving nature of Fund credit. Even with the agreed increase in quotas, the Fund was simply not in a position to go on providing resources at the rate envisaged for 1991. In this connection, Deputies welcomed the IMF's expectation that, provided they continued to follow appropriate policies, Czechoslovakia and Hungary

should cease to need exceptional assistance from the Fund and other official creditors in the not too distant future. Similarly, the Deputies stressed that the provision of official assistance was to permit the maintenance of orderly external payments and not the bailing out of other creditors. In view of the high level of uncertainty surrounding the CEEC's future financing needs, several Deputies were in favor of building recapture clauses into assistance programs to take account of the possibility of better than expected outcomes.

31. While the scope for exceptional official balance-of-payments assistance was limited in both amount and duration, the Deputies recognized that official support for structural adjustment policies and project financing was likely to extend well into the medium term. The Deputies welcomed the contribution that could be made by the World Bank and associated agencies. They noted in particular that the demise of the state planning ideology in the CEEC provided scope for constructive assistance by the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the Foreign Investment Advisory Service. In addition to World Bank efforts to arrange co-financing, these agencies might be able to foster the necessary transition from official to private financing by assisting the mobilization of both domestic and foreign private savings.

32. Deputies noted that the IFC had developed close contacts with the relevant authorities in the matter of foreign investment laws and procedures as well as legislation on ownership. It was also assisting the modernization and adaptation of the financial sector and taking

part in the privatization process, as a consultant to companies or as an investor, or both. The changed attitude towards foreign investment in the CEEC was also generating demand for MIGA's services, the focus of which was the encouragement of foreign private investors by providing political risk insurance on equity investments and contributing to the creation of a better legal environment. Thus, in addition to the World Bank's $9 billion total lending commitment for the fiscal years 1991-93, the World Bank group was making a major contribution to the development of an "enabling environment", which would encourage and catalyze private sources of finance.

33. The Deputies welcomed the fact that the European Bank for Reconstruction and Development planned to play a major role in the restructuring of state enterprises and their privatization and could be expected to provide a sizable volume of resources for private sector development. It was reported by the EBRD representative that the institution was ready to finance projects for energy production and conservation, environmental rehabilitation and restructuring of the financial and transportation systems. This should complement the financial support provided by the Bretton Woods institutions, which would therefore be able in due course to restrict their assistance to the CEEC in line with their traditional functions.

34. The Deputies laid particular emphasis on the crucial importance of appropriate conditionality in official efforts to assist the CEEC in their transition to market-based economies. Indeed, conditionality was the key to ensuring that the stimulus for sound policies was

maintained and that the process of reform was successful. At the same time it should promote the early restoration of CEEC creditworthiness. Conditionality would thus help catalyze resources for CEEC borrowers and provide additional protection for official creditors. The Deputies stressed the importance of a clear and unambiguous political commitment by the CEEC to support adequate conditionality. Accordingly, they felt it was indispensable for the Governments involved to "own" their structural reform programs.

35. The Deputies thought it essential that the IMF and the World Bank continue to take the lead in establishing conditionality. Noting the crucial importance of structural reform, they thought it right that Fund and World Bank programs should give due weight to structural adjustment aspects in conditionality. Thus, the coordination of Fund and World Bank conditionality should not only proceed at the macro-economic level, but also ensure that the macro-economic and structural aspects were mutually reinforcing. Deputies had already noted that the interaction of policies in these two areas could be complex. The precise content of structural conditionality needed to be more clearly defined; they thus welcomed the fact that the World Bank and the Fund were undertaking further studies in this area.

36. The Deputies discussed the difficult problems arising from the indebtedness of some CEEC. Large debt-service burdens could be a severe constraint on countries' ability, and willingness, to pursue appropriate structural and macro-economic policies. They also represented a serious obstacle to their efforts to restore their

creditworthiness in the international markets. On the other hand, the debt situations of the CEEC varied enormously: some had high levels of debt, while two had very little. Some had managed to meet all their obligations despite having higher debt-to-GNP ratios than others which had failed to do so. These differences highlighted the need to consider the debt problems of the CEEC on a case-by-case basis. Countries which were current with their obligations should remain so, and virtue be its own reward, especially in terms of restoring access to international capital markets.

37. Deputies recognized that Poland represented a special case in this regard, because its external debt had a crippling effect on the country's economic prospects and financial viability. They foresaw that the Paris Club discussions which were under way were likely to result in a significant debt relief package, going beyond what some low-income LDCs were granted under the Toronto agreement. Deputies considered that, when justified, debt relief should normally be made available as part of the financing of adjustment and reform programs in order to help the CEEC restore their creditworthiness. Deputies noted the difficult situation of Bulgaria, which was no longer current and owed 85 per cent of its large debt to commercial banks. They emphasized that banks should participate fully in debt relief operations.

Chapter III

COORDINATION ISSUES

38. The Deputies underscored the magnitude and complexity of the task of providing technical and financial assistance to the CEEC in their unprecedented programs of systemic, economic and political transformation. There was a need for close coordination among contributors in order to permit adequate and timely financing of radical adjustment and reform in the CEEC and to ensure the efficient allocation of scarce resources and equitable burden-sharing.

39. They recalled that it was the economic Summit held in Paris in July 1989 that had first given impetus to concerted action in favor of the CEEC and that this had been followed by the prompt activation of the G-24 initiative. This envisaged the participation of all the OECD countries and coordination by the EC Commission, thus requiring the establishment of new channels of communication and coordination between the participants. The Deputies concurred that the G-24 had made a valuable contribution by responding rapidly and effectively to the urgent needs of the CEEC and raising additional finance for macroeconomic and structural adjustment programs supported by the IMF and the World Bank. They further noted that the Fund and the World Bank had established increasingly close contacts in this area with the EC Commission and the G-24. Coordination had also been extended to encompass OECD technical advice and assistance.

40. Deputies praised the high degree of collaboration between the World Bank and the IMF that was evident in their work in Central and Eastern Europe, demonstrating the effectiveness of the procedures established in the spring of 1989. Deputies noted that the staff of the Fund and the World Bank had worked closely together through continuous contacts at headquarters, the participation of World Bank staff in Fund missions and vice versa, and parallel missions in the field.

41. Deputies nevertheless identified several areas in which the coordination procedures could be further improved. They shared the concern that obtaining financial commitments and assurances often took too long. They therefore underscored the need for earlier contacts among all contributors when exceptional financing was required. The Deputies also recommended that the IMF and the World Bank make a greater effort to set out the analytical case for extraordinary assistance in more detail. This was necessary to allow contributors to evaluate the most appropriate means of providing resources. An early understanding on financial requirements and potential pledges would also facilitate the framing of programs and burden-sharing. In addition, it would help minimize the risk that delays in financing programs would hinder the implementation of reforms. In this connection several Deputies stressed the need for a reference framework for balance-of-payments support by the G-24, containing a set of criteria and conditions as well as a burden-sharing formula.

42. The Deputies noted that the G-24 was created as a temporary mechanism designed chiefly to provide emergency support and ensure that political considerations were taken into adequate account in providing assistance to the CEEC. They thought that the G-24 governments should raise the level of their representation at the Group's meetings, with the aim of making the coordination procedure more effective and speeding up the decision-making process.

43. As noted earlier, the Deputies attributed the greatest importance to the close coordination of conditionality under Fund programs and World Bank SAL loans. While recognizing that other bodies, particularly the G-24, could apply conditionality of a broader kind, many Deputies cautioned against the introduction of economic policy conditions separate from those of the Bretton Woods institutions and noted that G-24 financing should support IMF and World Bank programs. They also considered that improved coordination of bilateral initiatives with the official financing provided by international organizations would be extremely valuable. In this respect, they noted that co-financing with World Bank programs was one form of coordination which avoided the introduction of multiple conditionality.

44. Deputies called for more effective information on the amount and nature of the funds to be committed and disbursed by all sources. To this end, suggestions were put forward for establishing a uniform reporting framework, such as that provided by the Development Assistance Committee of the OECD. This would make it

possible to monitor overall financing and ensure appropriate burden-sharing.

45. Deputies noted that the Fund and World Bank were jointly assisting the authorities of some CEEC in preparing documents that set out a medium-term framework for macroeconomic and structural adjustment in connection with requests for extended arrangements with the Fund. Deputies thought that it would be useful to assess the extent to which these documents had been of help to the authorities in formulating and publicizing their medium-term macroeconomic policies, fostered closer coordination between the Fund and the World Bank, and could prove useful to other international organizations and bilateral official creditors engaged in providing financial or technical assistance.

46. Deputies agreed that coordination in the field of technical assistance needed to be strengthened. They were firmly of the view that responsibility in this area should rest with the recipient country. However, recipient countries' structures were often weak and needed to be reinforced with the help of the international organizations and bilateral assistance. Deputies noted that the CEEC themselves were sending teams to western countries to see how market-based systems operated in practice. They agreed that such missions and visits should be encouraged, but warned against the danger of duplication, noting that some of the countries in the region had approached institutions in several western countries with requests for technical assistance on identical topics. Deputies welcomed the role of the BIS in facilitating

the coordination of the technical assistance provided by central banks, and the efforts of the OECD, the IMF and the World Bank to establish mechanisms to coordinate the demand and supply of technical assistance to the CEEC. Resident representatives of the Fund and the World Bank could play a useful role in this regard. Deputies recommended that the international organizations be responsible for providing technical assistance on the basis of their comparative advantages.

47. Finally the Deputies considered whether the G-10 could play a more direct role in enhancing the coordination of financial and technical assistance to the CEEC. They saw no need for the Group's direct involvement in this process at this time, but were of the view that the reforms under way in the CEEC had implications of a systemic nature that could usefully be discussed by the G-10. Indeed, the structure and composition of the G-10 made it especially qualified to assess the adequacy of the overall conditionality applied in the transition process and make policy recommendations on matters of systemic relevance, including macro-prudential issues likely to affect the activity of banks and financial markets.

ANNEX

MEMBERSHIP OF THE GROUP OF DEPUTIES

CHAIRMAN:	LAMBERTO DINI	BANK OF ITALY
BELGIUM:	B. SNOY	MINISTRY OF FINANCE
	J.J. REY	NATIONAL BANK OF BELGIUM
CANADA:	D.A. DODGE	DEPARTMENT OF FINANCE
	W.R. WHITE	BANK OF CANADA
FRANCE:	J.C. TRICHET	MINISTRY OF ECONOMY, FINANCE & BUDGET
	P. LAGAYETTE	BANK OF FRANCE
GERMANY:	H. KÖHLER*	MINISTRY OF FINANCE
	H. TIETMEYER	DEUTSCHE BUNDESBANK
ITALY:	M. DRAGHI	MINISTRY OF THE TREASURY
	F. SACCOMANNI	BANK OF ITALY
JAPAN:	M. UTSUMI	MINISTRY OF FINANCE
	M. WAKATSUKI	BANK OF JAPAN
NETHERLANDS:	C. MAAS*	MINISTRY OF FINANCE
	A. SZÁSZ	NETHERLANDS BANK
SWEDEN:	G. LUND	MINISTRY OF FINANCE
	T. FRANZÉN	BANK OF SWEDEN
SWITZERLAND:	J. ZWAHLEN	SWISS NATIONAL BANK
	D. KAESER	MINISTRY OF FINANCE
UNITED KINGDOM:	N.L. WICKS	H.M. TREASURY
	A.D. CROCKETT	BANK OF ENGLAND
UNITED STATES:	D.C. MULFORD	U.S. TREASURY DEPARTMENT
	C.J. SIEGMAN	FEDERAL RESERVE SYSTEM

G-10 OBSERVERS FROM INTERNATIONAL ORGANIZATIONS

INTERNATIONAL MONETARY FUND:	J.T. BOORMAN
	M. RUSSO
ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT:	S. ZECCHINI
	D. HENDERSON
	V. KOROMZAY
BANK FOR INTERNATIONAL SETTLEMENTS:	H. BOCKELMANN
	J.R. BISIGNANO
COMMISSION OF THE EUROPEAN COMMUNITIES:	G. RAVASIO
	J.F. PONS
	F. LARSEN

OTHER INVITED OBSERVERS

THE WORLD BANK:	W.A. WAPENHANS
	D. BOCK
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT:	A. LJUNGH

SECRETARIES:	ASSISTANTS TO THE CHAIRMAN:
J.A. BISPHAM (BIS)	F. PAPADIA (BANK OF ITALY)
P.M. KELLER (IMF)	S. REBECCHINI (BANK OF ITALY)
N. VANSTON (OECD)	

* At the meeting of March 9 Mr. H. Köhler was replaced by Mr. G. Haller, and Mr. C. Maas by Mr. L. Verwoerd.