

EBS/84/228

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November 13, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Experience with Adjustment Policies

This paper provides background analysis to the paper on the review of upper credit tranche arrangements and of some conditionality issues (EBS/84/227, 11/7/84), which has been tentatively scheduled for discussion on Wednesday, December 5, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Gerhard (ext. (5)8779).

Att: (1)



INTERNATIONAL MONETARY FUND

Experience with Adjustment Policies

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(In consultation with other departments)

Approved by C. David Finch

November 8, 1984

	<u>Contents</u>	<u>Page</u>
I.	Introduction	1
II.	Sample Countries, World Economic Environment, and Method of Analysis	1
	1. Countries included in the sample	1
	2. World economic environment	2
	3. Method of analysis	4
III.	Sources and Size of Economic Imbalances	8
	1. Overview	8
	2. Fiscal imbalances	13
	3. Monetary imbalances	14
	4. Exchange rate maladjustments	16
	5. Supply constraints	17
IV.	Adjustment Policies	20
	1. Overview	20
	2. Fiscal policy	21
	3. Money and credit policies	25
	4. Exchange rate policy	30
	5. Supply policies	36
V.	Arrangements for the Use of Fund Resources	38
VI.	Performance Relative to Adjustment Objectives	41
	1. External payments deficits	42
	2. Inflation and growth	46
	3. Relation to strength and continued implementation of policies	48
VII.	Summary and Conclusions	49

	<u>Contents</u>	<u>Page</u>
Text Tables		
1.	Selected Economic and Financial Indicators, 1967-1983	3
2.	Demarcation Lines for Before/After Comparisons	6
3.	Growth, Inflation, and Balance of Payments for Sample Countries Before the Initiation of Adjustment	9
4.	External Current Account Balances and Components for Sample Countries Before the Initiation of Adjustment	11
5.	Saving/Investment Balances for Sample Countries Before the Initiation of Adjustment	12
6.	Fiscal and Monetary Developments for Sample Countries Before the Initiation of Adjustment	15
7.	Changes in Budget Expenditures and Revenues Relative to GDP Following the Initiation of Adjustment	23
8.	Real Ex-Post Interest Rates on Deposits of up to One-Year Maturity	26
9.	Ratio of Money to GDP	28
10.	Ratio of Credit to GDP	29
11.	Annual Average Changes in Real Effective Exchange Rates Before and After Initiation of Adjustment	33
12.	Growth of Export Volume Before and After Initiation of Adjustment	35
13.	Upper Credit Tranche Stand-By and Extended Arrangements Approved in 1977-1983 for Countries in the Sample	39
14.	Performance Criteria in Upper Credit Tranche Stand-By and Extended Arrangements with Sample Countries Approved in 1977-1980	40
15.	External Current Deficits Relative to GDP and Exports of Goods and Services	43
16.	Ratios of External Current Balances and Components to Exports of Goods and Services	45
17.	Inflation and Growth Performance	47
Appendix A.	Summary Data for Individual Countries	52
Appendix B.	Characteristics of Sample Countries and Other Members Borrowing from the Fund, 1977-1980	73
Appendix C.	Aggregative Overview of Fund Lending Under Credit Tranche Policies and the Extended Fund Facility, 1960-1983	77
Appendix D.	Experience with Interruptions and Resumptions of Purchases	87
Appendix E.	Statistical Methods	95

ContentsPage

Appendix Tables

I.	Rate of Increase of Consumer Prices	52
II.	Rate of Increase of GDP	53
III.	Gross National Saving as Percentage of GNP	54
IV.	Gross Domestic Investment as Percentage of GNP	55
V.	Saving/Investment Balance as Percentage of GNP	56
VI.	Budget Saving/Investment Balance as Percentage of GNP	57
VII.	Nongovernment Saving/Investment Balance as Percentage of GNP	58
VIII.	Ratio of Government Revenue to GDP	59
IX.	Ratio of Government Current Expenditure to GDP	60
X.	Ratio of Government Capital Expenditure to GDP	61
XI.	Ratio of Government Balance to GDP	62
XII.	Cyclically Adjusted Budget Balance as Percentage of GDP	63
XIII.	Rate of Increase of Money	64
XIV.	Rate of Increase of Total Credit	65
XV.	Rate of Increase of Credit to Government	66
XVa.	Ratio of Government Credit to Total Domestic Credit	67
XVI.	Annual Average Changes in Nominal Effective Exchange Rates Before and After Initiation of Adjustment	68
XVII.	External Current Account Balance as Percentage of Exports of Goods and Services	69
XVIII.	Residual External Current Balance as Percentage of Exports of Goods and Services	70
XIX.	External Current Account Balance as Percentage of GDP	71
XX.	Trade Balance at Constant Prices as Percentage of Real GDP	72
XXI.	Characteristics of Economic Problems in Sample and Other Countries with Stand-By or Extended Arrangements in 1977-1980	75
XXII.	Policies Considered Sources of Economic Problems in Sample and Other Countries with Stand-By or Extended Arrangements, 1977-1980	76
XXIII.	Arrangements, Outright Purchases, and Economic and Financial Programs, 1960-1983	81
XXIV.	Number of Arrangements, Outright Purchases, and Programs for Use on Upper Credit Tranche Terms by Individual Members, 1960-1983	82
XXV.	Percent of Years of Membership Since 1960 During Which Members had Arrangements and Programs	83
XXVI.	Twenty Members with Highest Portion of Years of Membership in Which Programs Supported by Upper Credit Tranche Terms Arrangements or Outright Purchases were Approved, 1960-1983	84

ContentsPage

Appendix Tables (continued)

XXVII.	Cumulative Gross Purchases of Fund Resources Under the Credit Tranche or Extended Fund Facility by Individual Members, 1960-1983	85
XXVIII.	Members with Largest Cumulative Gross Purchases Under the Credit Tranche or Extended Fund Facility, 1960-1983	86
XXIX.	Interruption and Resumption of Purchases in Upper Credit Tranche Stand-By and Extended Arrangements with Countries in the Sample, 1977-1983	89
XXX.	Frequency and Length of Interruptions	94
XXXI.	Estimated Elasticity of Non-Oil Exports with Respect to Imports of Industrial and Developing Countries	97
XXXII.	Estimated Buoyancy of Current Budget Revenues with Respect to Production for Domestic Use and Exports	98

Charts

1.	Current Account and Inflation Performance Prior to Initiation of Adjustment	10a
2.	National and Government Saving/Investment Balances Performance Prior to Initiation of Adjustment	14a
3.	Budget Balance and Expenditure over GDP: Performance Prior to Initiation of Adjustment	14b
4.	Percentage Change in Total Credit and Credit to Government: Performance Prior to Initiation of Adjustment	16a
4a.	Total Credit and Credit to Government as Percentage of Broad Money	16b
5.	Change in Ratios to GDP of Budget Balance and Expenditure Following Initiation of Adjustment	24a
6.	Rate of Increase in Total Credit and Credit to Government Following Initiation of Adjustment	30a
7.	Change in Ratios to GDP of Budget Balance and External Current Account Balance Following Initiation of Adjustment	48a
8.	Timing and Sustained Characteristics of Adjustment of Fiscal and Monetary Policies	48b

Experience with Adjustment Policies

I. Introduction

This paper provides background material for the 1984 review of upper credit tranche and extended arrangements and of the guidelines on conditionality. In response to suggestions by Executive Directors, this paper represents an experimental variation of the studies presented on past occasions. While those studies focused on developments under stand-by and extended arrangements approved during one or two recent years, the focus of the present study is on members' experience over a longer period with emphasis on their adjustment policies as such rather than on the date of inception of programs supported by Fund resources. To this end, domestic and external developments and the adjustment experience of selected large users of Fund resources are studied over an extended period. Individual arrangements or programs for these countries were reviewed in earlier studies of upper credit tranche stand-by and extended arrangements. ^{1/} Focusing the study on a sample rather than all countries which used Fund resources allowed for a more intensive analysis of developments and policies in these countries. A brief comparison of the size and nature of the problems faced by countries in the sample and other countries which used Fund resources during the same period is presented in Appendix B and summarized below.

II. Sample Countries, World Economic Environment, and Method of Analysis

1. Countries included in the sample

Countries were selected for inclusion in the current review on the basis of a single criterion: the size of cumulative commitments of Fund resources relative to quotas under stand-by and extended arrangements during the period 1977-1980. In order to avoid double counting, commitments were adjusted for cancellations and replacements that occurred during the period. The 25 countries with the largest cumulative commitments relative to quotas during the period 1977-1980 were included in the sample. Commitments were used as the criterion for selection rather than actual use in order to avoid automatically excluding countries that experienced interruptions to purchases or countries that chose not to draw. Countries included in the current

^{1/} "Adjustment Programs Supported by Upper Credit Tranche Stand-By Arrangements, 1977," (EBS/79/635, 12/26/79); "Review of the Extended Fund Facility," (SM/80/278, 12/29/80); "Review of Upper Credit Tranche Stand-By Arrangements Approved in 1978-79 and Some Issues Related to Conditionality," (EBS/81/152, 7/14/81); "Review of Recent Extended and Upper Credit Tranche Stand-By Arrangements," (EBS/82/97, 6/9/82) and Supplement 1 (6/10/82); "Upper Credit Tranche Stand-By and Extended Arrangements Approved in 1981," (EBS/83/216, 10/4/83).

review have accounted during the period 1977-1980 for 60 percent of the number of programs supported by use of Fund resources and roughly one half of actual use of Fund resources under the credit tranche policy or under the extended Fund facility (including supplementary financing).

Selected characteristics of the countries included in the sample are compared with those of all countries which used Fund resources in the credit tranches or under extended arrangements during the same period in Appendix B. Both the problems faced by the countries in the sample and the factors associated with or primarily responsible for these problems were similar to those of all countries which used Fund resources during this period. Seventy percent of the countries in the sample experienced acute balance of payments difficulties during the period immediately preceding the initiation of adjustment efforts, while about half of the cases experienced acute problems of low growth or employment; high or accelerating inflation was considered at least a moderate problem in three fourths of the cases. Corresponding proportions for all countries which used Fund resources during the period 1977-1980 were similar.

The policies underlying these difficulties in sample countries and in other countries which used Fund resources during the same period were also similar. Expansionary demand-management policies were a primary factor underlying the emergence or widening of domestic and external imbalances in nearly all of the countries in the sample and in three fourths of all programs supported by use of Fund resources in the upper credit tranches or under extended arrangements during this period. Cost and price distortions associated with the exchange rate were a major factor underlying existing problems in nearly half of each group of countries while other cost and price distortions were considered significant in two thirds of both countries in the sample and all countries which used Fund resources during the same period.

2. World economic environment

Developments in the global economy since the mid-1970s have been reviewed regularly in the context of the World Economic Outlook exercise. Successive increases in oil prices in 1973 and again in 1979, severe recessions of the world economy in 1975 and again in the early 1980s, the maintenance in many countries of expansionary domestic financial policies and, during the most recent period, high interest rates in international capital markets, have resulted in severe strains on the external payments positions of a large number of countries.

Selected indicators of economic and financial developments in the world economy for the period since 1977, the key period for the study of adjustment for those countries included in the sample, are shown in Table 1. Trends in the world economy and, in particular, in non-oil developing countries were clearly unfavorable. The typical non-oil developing country, as represented by the median for all non-oil

Table 1. Selected Economic and Financial Indicators, 1967-1983

	Average 1967-1976	1977	1978	1979	1980	1981	1982	1983
Growth								
Industrial countries	3.7	3.9	4.1	3.5	1.3	1.6	-0.2	2.6
Developing countries <u>1/</u>	...	5.1	6.0	4.8	3.7	3.0	1.7	1.9
Of which: non-oil deve- loping countries <u>1/</u>	5.0	5.0	6.1	4.8	3.8	3.3	1.8	1.9
Changes in consumer prices								
Industrial countries	6.7	8.4	7.1	9.0	11.8	9.9	7.4	4.9
Developing countries <u>1/</u>	...	11.3	9.5	11.5	14.5	13.5	10.8	10.5
Of which: non-oil deve- loping countries <u>1/</u>	7.8	11.3	9.4	11.9	14.7	13.7	11.5	11.3
External trade of non-oil developing countries								
Exports								
Volume	6.6	4.1	9.7	8.1	9.0	7.7	1.7	5.8
Unit values <u>2/</u>	7.9	14.6	5.1	18.7	15.7	-2.3	-6.2	-2.3
Imports								
Volume	6.0	7.7	8.6	10.6	7.3	3.1	-8.2	-1.9
Unit Values <u>2/</u>	8.6	7.4	9.6	17.9	20.3	3.0	-3.0	-3.3
Terms of trade	-0.7	6.8	-4.1	0.7	-3.8	-5.1	-3.3	0.8
Purchasing power of exports	5.9	11.2	5.2	8.8	4.8	2.2	-1.6	6.6
Current account balances of non-oil developing countries <u>1/</u> <u>3/</u>								
	-22.0	-21.5	-30.7	-29.1	-34.1	-42.4	-36.9	-33.9
Gross reserves of non-oil developing countries (end of period) <u>4/</u>								
	...	26.0	26.6	22.7	17.9	16.5	17.0	19.4
External debt and debt service of non-oil deve- loping countries								
External debt <u>3/</u>	...	129.5	131.0	119.5	113.1	125.0	148.3	154.4
Debt service ratio <u>3/</u>	...	16.1	19.8	19.7	18.1	21.4	25.0	22.3
Of which: interest payments <u>3/</u>	...	6.2	7.3	8.2	9.2	12.1	14.6	13.3

Source: World Economic Outlook.

1/ Median.

2/ In terms of U.S. dollars.

3/ As percentage of exports of goods and services.

4/ As percentage of imports.

developing countries, experienced a significant deceleration of growth during this period and substantially higher inflation than in the preceding ten-year period although inflation showed signs of deceleration after 1981. Despite weakening growth abroad, the volume of exports of non-oil developing countries expanded strongly through 1981, offsetting, at least on average, the deterioration of terms of trade during the same period. Widening external current deficits through 1981, to a large extent, reflected the concurrent strong expansion of import volumes. Reflecting these developments, the median external current account deficit of non-oil developing countries, the most frequent users of Fund resources, widened sharply after the mid-1970s from the equivalent of 21.5 percent of exports of goods and services in 1977 to 42.4 percent in 1981.

The financing of larger external current deficits resulted in both a reduction of holdings of reserves and in recent years a rapid expansion of external debt relative to exports of goods and services. Larger outstanding external debts and sharply higher interest rates on international capital markets have resulted since 1981 in significantly higher debt service obligations. For many countries initiating adjustment efforts during the period under review, the less favorable external environment of the early 1980s sharply increased both the need for and urgency of such adjustment.

3. Method of analysis

In contrast with earlier studies submitted for the periodic reviews of upper credit tranche stand-by and extended arrangements which aimed at assessing developments under single annual economic and financial programs, the present study takes a longer view of the adjustment process. For this purpose, it reviews economic developments in the selected sample of countries over the past decade and focuses attention in particular on the comparative experience during the period "before" the initiation of the adjustment process and the period "after," both for each country individually and relative to other countries in the sample.

The before/after division is not always clearcut. In some cases, measures were introduced over a long period and in an ad hoc manner without constituting elements of a sustained and systematic adjustment effort. Moreover, the initiation of the adjustment process does not necessarily correspond to the first use of Fund resources during the period under review. For example, a systematic adjustment effort may have been adopted prior to the first use of Fund resources, Fund resources having been requested only later in support of continued (in some cases, intensified) adjustment efforts or in response to a larger balance of payments need. Conversely, sustained adjustment efforts may have been effectively implemented only some time after the first use of Fund resources. The before/after division used in this study is thus judgmental and, to some extent, arbitrary. In principle, the demarcation line was drawn to separate two subperiods characterized by

a change in the direction of policies, although this change may not have been sustained throughout the latter period. In order to provide sufficient before and after perspective, the demarcation line was drawn in all cases within the period 1977-1980. While a more recent date might have provided a sharper before/after differentiation in some cases, this would have left even less scope for empirical analysis of subsequent developments. The criteria chosen made it possible to divide the period under review into two subperiods for all of the countries in the sample, except two--Panama and the Philippines--both of which had stand-by or extended arrangements with the Fund throughout most of the period under review and no major break in the general stance of policies. The analysis of developments in these two countries does not rely on a before/after distinction. The demarcation line for other countries is shown in Table 2. Although the before/after division simplifies the presentation of the analysis, policy changes preceding the "initiation of adjustment" indicated by the demarcation line or in recent years are taken into account, where appropriate, in interpreting developments.

The basic aim of the analysis is to identify the nature and pattern of changes in policies and their effects on the attainment of key adjustment objectives. The difficulty of doing so is well known. A rigorous analysis would require a comparison of the actual outcome with the hypothetical outcome associated with a continuation of earlier policies. This is not possible in the current context since no feasible simulation method would capture all the relevant characteristics of the broad range of cases under review. The key tools of analysis in the present study are the before/after comparisons for each country and comparisons across countries. In some cases, key macroeconomic variables for countries in the sample have been adjusted for the influence of exogenous factors which may have affected developments in the two subperiods differently. 1/

Comparisons with all non-oil developing countries are also reported where appropriate in order to provide perspective on the pattern of adjustment. While comparisons of growth, inflation, or the external payments position between program and nonprogram countries have been frequently used elsewhere to highlight the effects of programs, the present study avoids such comparisons since, almost by definition, the need for adjustment is likely to be larger in program countries than in nonprogram countries. Thus, changes in the behavior of key macroeconomic variables in the countries in the sample relative to nonprogram countries would be expected even in the absence of a concerted adjustment effort. For the same reason, simple before/after comparisons for these variables may reflect adjustment other than that resulting from the specific measures taken. In the present study, such comparisons are used not for the purpose of assessing the independent effect of programs but in order to illustrate changes in the stance of policies

1/ These adjustments are explained in Appendix E.

Table 2. Demarcation Lines for Before/After Comparisons

	Demarcation Line	Comments <u>1/</u>
Bangladesh	FY 1979/80 <u>2/</u>	Concurrent first upper credit tranche arrangement approved 7/30/79.
Bolivia	1980	Concurrent first upper credit tranche arrangement approved 2/1/80.
Costa Rica	1980	Concurrent first upper credit tranche arrangement approved 3/12/80.
Egypt	1977	Concurrent first upper credit tranche arrangement approved 4/20/77.
Gabon	1978	Concurrent first upper credit tranche arrangement approved 5/31/78.
Guyana	1978	Concurrent first upper credit tranche arrangement approved 8/15/78.
Jamaica	FY 1977/78 <u>3/</u>	Concurrent first upper credit tranche arrangement approved 8/11/77.
Kenya	FY 1978/79 <u>2/</u>	First credit tranche stand-by arrangement approved 11/13/78.
Korea	1980	Concurrent first upper credit tranche arrangement approved 3/3/80.
Liberia	FY 1979/80 <u>2/</u>	First credit tranche use in March 1979 followed by upper credit tranche arrangement approved 9/15/80.
Madagascar	1980	Concurrent first upper credit tranche arrangement approved 6/27/80.
Malawi	FY 1980/81 <u>3/</u>	Concurrent first upper credit tranche arrangement approved 10/31/79.
Mauritania	1978	First upper credit tranche arrangement approved 7/23/80. Adjustment efforts initiated in mid-1978.
Mauritius	FY 1979/80 <u>2/</u>	Concurrent first upper credit tranche arrangement approved 10/31/79.

Table 2 (concluded). Demarcation Lines for Before/After Comparisons

	Demarcation Line	Comments <u>1/</u>
Morocco	1978	First upper credit tranche arrangement approved 10/8/80. Three-year stabilization plan initiated in 1978.
Pakistan	FY 1980/81 <u>2/</u>	Extended arrangement approved 11/24/80.
Peru	1978	Concurrent first upper credit tranche use approved 11/18/77.
Senegal	1980	Stabilization measures initiated in late 1979. Extended arrangement approved 8/8/80.
Sri Lanka	1978	Concurrent first upper credit tranche arrangement approved 12/2/77.
Sudan	FY 1978/79 <u>2/</u>	Concurrent first upper credit tranche arrangement approved 5/4/79 preceded by a first credit tranche drawing in July 1978.
Tanzania	1979	First credit tranche purchase in April 1979 supporting one-year program.
Turkey	FY 1980/81 <u>3/</u>	Upper credit tranche arrangements had been approved in each of the two preceding years. A stronger change in policies took place in 1980.
Zambia	1977	Concurrent first upper credit tranche arrangement approved 7/30/76.

1/ References to the timing of first arrangements for use of Fund resources in the credit tranches are to arrangements approved during the period 1977-1980.

2/ July-June.

3/ April-March.

and developments in key macroeconomic indicators. An attempt is made to identify the effects of different policies or combination of policies through analysis of economic and financial developments across countries in the sample.

The analysis relies both on broad summary measures of developments in the sample (e.g., average and median) and developments in individual countries. The former are used to illustrate the characteristics common or typical of countries in the sample. A more complete understanding of developments in each case, however, requires that its individual circumstances be properly taken into account.

III. Sources and Size of Economic Imbalances

1. Overview

For most of the countries included in the sample, the initial situation was characterized by large or growing domestic and external imbalances. In particular, the typical country, as represented by the median of the sample, 1/ experienced an external current account deficit equivalent to more than 10 percent of GDP during the period immediately preceding the initiation of adjustment, 3 percentage points of GDP higher than in preceding years (Table 3). 2/ Reflecting the much larger increase for some countries, the average external current account deficit increased more sharply than the median, nearly doubling to the equivalent of more than 12 percent of GDP during the period immediately preceding the adoption of adjustment policies. More than half of the countries in the sample were experiencing rapidly widening external current deficits while in many of the other cases intensified restrictions prevented existing imbalances from being reflected in wider payments deficits (Chart 1).

Another typical development for countries in the sample during the period immediately preceding the initiation of adjustment was a slowdown in the rate of growth. While other non-oil developing countries experienced relatively stable growth, 17 of the countries included in the sample experienced a slowdown of growth during the period immediately preceding the initiation of adjustment, both the

1/ All references to the "typical" country in the remainder of this study are to the median of the sample for the particular characteristic being referred to.

2/ In order to minimize the influence of very short-term fluctuations which could exaggerate or hide trends, all observations are based on at least two-year averages. Thus, the period immediately preceding the initiation of adjustment refers to the two-year period before adjustment policies were adopted while references to earlier years are to the third and fourth year preceding adjustment. A similar breakdown is used in describing developments during the period following the initiation of adjustment.

Table 3. Growth, Inflation, and Balance of Payments for Sample Countries Before the Initiation of Adjustment

	All Years Before <u>1/</u>	Four-Year Period Preceding Initiation of Adjustment		
		First half	Second half	Total
(In percent)				
Growth				
Average	5.5	6.2	4.7	5.6
Median	5.2	6.0	4.8	5.4
Inflation				
Average	15.3	12.1	14.7	13.4
Median	14.8	12.2	11.5	11.6
External current account Balance				
1. As percentage of GDP				
Average	-8.6	-6.3	-12.2	-9.3
Median	-7.6	-6.7	-10.1	-8.8
2. As percentage of exports of goods and services				
Average	-39.7	-35.3	-51.4	-43.4
Median	-35.5	-25.7	-43.0	-34.4
Memorandum items:				
All non-oil developing countries <u>2/</u>				
Growth	5.0	5.0	5.3	5.2
Inflation	12.5	12.8	10.8	11.8
External current account (as per- centage of exports of goods and ser- vices)	-24.6	-24.2	-27.1	-25.7

Sources: Appendix Tables I, II, XVII, XVIII.

1/ Since 1973.

2/ Median. Weighted average of medians for each year with weights reflecting the yearly composition of the relevant subperiods for countries in the sample.

average and median growth rates for sample countries falling by more than 1 percentage point during this period. As a result, the typical country in the sample, which earlier had been growing faster than other non-oil developing countries, was growing somewhat more slowly than other non-oil developing countries during the period immediately preceding the adoption of adjustment measures. Although the rate of inflation remained fairly stable in the typical sample country during this period, several countries experienced a sharp acceleration of inflation. In many cases, however, inflation was repressed through the maintenance or tightening of price controls.

These developments as regards growth, inflation, and the external payments position for the countries in the sample reflected both domestic and external influences. However, while individual circumstances differed and although external factors contributed to the size of existing imbalances, the widening of these imbalances in the period immediately preceding the adoption of adjustment measures reflected primarily the influence of domestic factors. Major external disruptions in recent years (i.e., the second large increase in oil prices and higher interest rates on international capital markets) 1/ and temporary external or domestic influences 2/ are estimated to have accounted on average for only a small part of the increase in the average external current deficit for countries included in the sample during the period preceding the initiation of the adjustment (Table 4). These external or temporary factors accounted for less than half of the total increase in the external current deficit relative to GDP during the period preceding the adoption of adjustment policies in 13 of the 22 cases for which such estimates could be obtained.

Similar conclusions emerge from the analysis of saving/investment balances during the period preceding the adoption of adjustment measures. The widening external current deficit for the typical country included in the sample reflected both a weakening of saving and stronger investment spending, resulting in a weakening of the saving/investment balance by the equivalent of 2 percent of GNP (Table 5). In 15 of the 22 cases studied, this deteriorating saving/investment balance reflected primarily similar developments in the overall balance of the budget. 3/

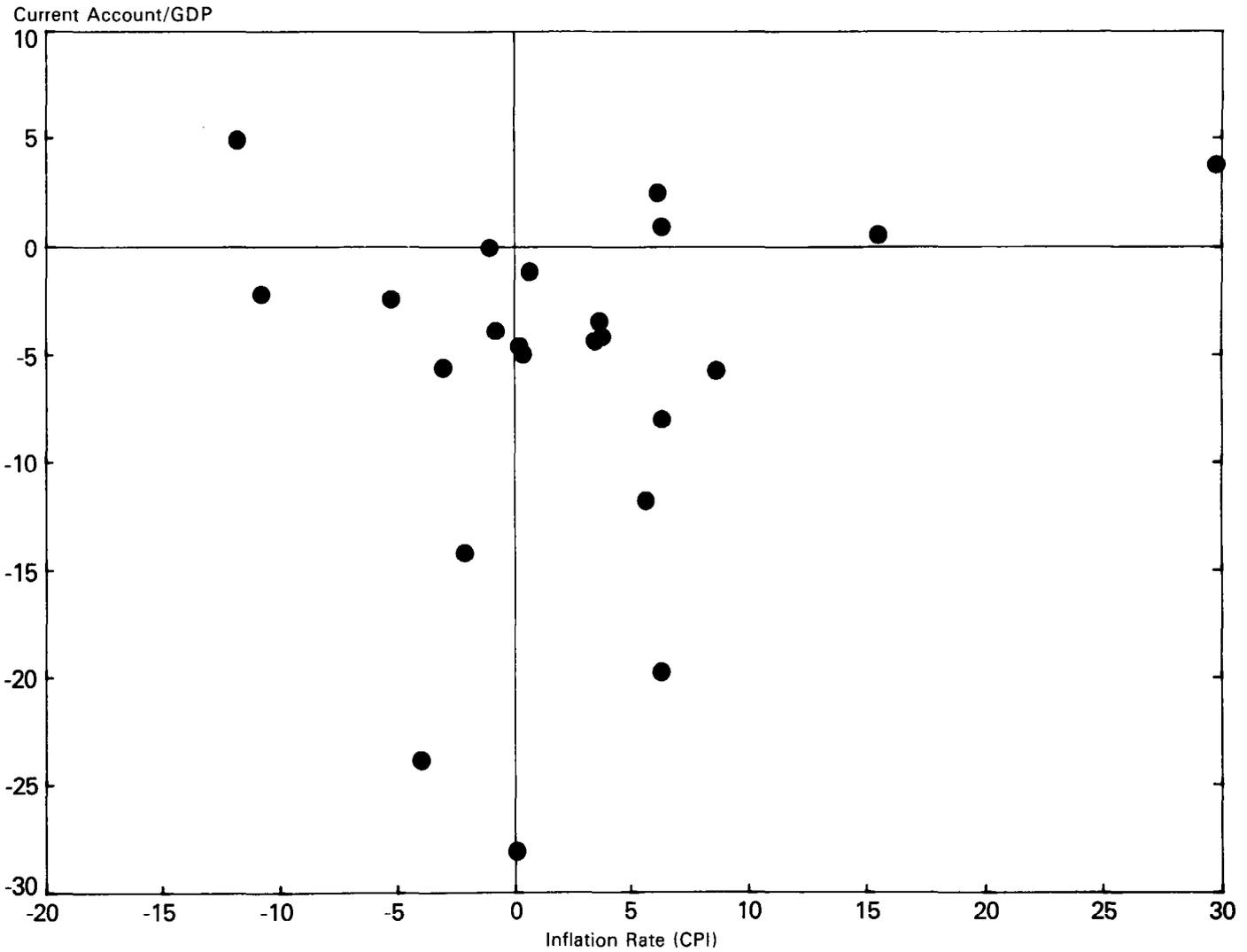
1/ These factors, however, were more significant during the period following the initiation of adjustment.

2/ Specifically, for the purpose of this comparison, external current balances were adjusted for fluctuations in non-oil terms of trade or export volumes associated with fluctuations in foreign demand and export losses or increased food imports resulting from droughts, transport disruptions, etc. See Appendix E.

3/ Since current budget expenditures include interest payments, government and nongovernment saving and investment are related to GNP rather than GDP whenever GNP is available. All other ratios are to GDP, data on which are more widely available for countries in the sample.

CHART 1

CURRENT ACCOUNT AND INFLATION PERFORMANCE PRIOR TO INITIATION OF ADJUSTMENT¹



¹Average during two-year period immediately preceding adjustment less average in preceding years.



Table 4. External Current Account Balances and Components for Sample Countries Before the Initiation of Adjustment 1/

	All Years Before <u>2/</u>	Four-Year Period Preceding Initiation of Adjustment		
		First half	Second half	Total
(In percent)				
Current account balance	-38.9	-34.8	-50.7	-42.7
Of which:				
Oil imports (net)	-9.5	-9.9	-12.3	-11.1
Investment income (net)	-9.1	-8.3	-11.0	-9.6
Subtotal	-18.6	-18.2	-23.3	-20.7
Non-oil terms of trade <u>3/</u>	1.4	1.0	4.9	2.9
Cyclical export shortfalls <u>4/</u>	-0.1	-0.6	1.2	0.3
Other disruptions <u>5/</u>	-0.7	-0.4	-1.3	-0.9
Subtotal	0.6	--	4.8	2.3
Residual	-20.9	-16.5	-32.1	-24.3
Memorandum items:				
Non-oil developing countries: current account balance as percentage of exports of goods and services				
Average	-19.0	-17.9	-19.5	-18.7
Median	-24.6	-24.2	-27.1	-25.7

Sources: Appendix Tables XI, XII; and Appendix E.

1/ Percentage of exports of goods and services. All data are averages. Excludes Egypt.

2/ Since 1973.

3/ Deviations from trend.

4/ Related to fluctuations in the volume of imports in foreign markets.

5/ Export shortfalls or exceptional food imports resulting from droughts, strikes, wars, etc.

Table 5. Saving/Investment Balances for Sample Countries
Before the Initiation of Adjustment 1/2/

	All Years Before <u>3/</u>	Four-Year Period Preceding Initiation of Adjustment		
		First half	Second half	Total
(In percent)				
Government sector				
Balance				
Average	-8.6	-6.2	-12.6	-9.4
Median	-7.2	-6.1	-8.9	-8.5
Nongovernment sector				
Balance				
Average	1.0	1.2	1.3	1.2
Median	-0.7	-0.7	-0.4	-0.1
Total				
Savings <u>4/</u>				
Average	17.1	19.1	15.4	17.2
Median	15.7	16.7	14.2	15.4
Investment				
Average	24.7	24.1	26.6	25.4
Median	24.2	23.4	26.7	24.6
Balance				
Average	-7.6	-5.1	-11.3	-8.2
Median	-6.7	-7.4	-9.4	-7.6

Sources: Appendix Tables III-VII.

1/ As percentages of GNP.

2/ The breakdown between the government and nongovernment sectors of the overall saving/investment balance on a national accounts basis was derived using estimates of the government saving/investment balance from budget data, the saving/investment balance of the nongovernment sector being obtained residually. To the extent that national accounts data are reported on an accrual basis while fiscal data are reported on a cash basis, the two are not strictly comparable and inconsistencies could arise from large swings in "float" or arrears. Also, in some cases, national accounts data are available only on a calendar year basis while fiscal data pertain to fiscal years. The use of period averages, however, should minimize the resulting inconsistencies.

3/ Since 1973.

4/ Includes private but not public transfers.

Large or growing fiscal imbalances during the period preceding the initiation of adjustment clearly were a major source of difficulties in a wide majority of the countries in the sample (Chart 2).

2. Fiscal imbalances

The emergence of fiscal imbalances in the countries under review reflected a variety of circumstances. In some of the countries under review, the main reason for rising fiscal imbalances were increases in spending in response to wars, civil disturbances, or natural disasters. In other instances, the increase in spending was the result of deliberate decisions prompted by long-standing economic and social needs and was typically reflected in increased outlays for both current and capital purposes.

In many cases, the source of fiscal problems was the initiation of new and more ambitious development programs (e.g., Bolivia, Gabon, Liberia, Madagascar, Mauritania, and Morocco). Although foreign financing frequently helped postpone the need for increasing domestic resources, in several cases the accumulated debt posed problems of its own, either because the projects did not provide the resources needed to service the debt, or because the government had other uses for those resources. Thus, the ultimate result of overly ambitious development programs often was pressure on the fiscal position and the external position of the country as well.

Rapid increases in current expenditures also frequently were a major source of widening budget deficits. In particular, wage outlays rose rapidly in many of the countries under review (e.g., Bangladesh, Egypt, Guyana, Jamaica, Kenya, Liberia, Madagascar, and Mauritius). In some cases the rise in wage outlays was the result of long-standing policies to hire all not otherwise employed college graduates, or the expansion of labor-intensive activities. Food subsidies or subsidies to farmers were a source of fiscal problems in some countries (e.g., Bangladesh, Egypt, Korea, Madagascar, and Mauritius). Subsidies to other private or public enterprises also increased rapidly in several countries; in a number of cases, public enterprises faced a very unfavorable financial situation, the result of inadequate pricing practices, as well as inefficient management and production techniques and, in some instances, overly ambitious investment programs.

Frequently, the background to fiscal disequilibrium in the countries under review were export boom-bust cycles, in line with the swings in commodity prices and world demand for raw materials that took place in the 1970s. Several of the countries under review, when experiencing an export boom, increased government spending. Such expansion of public spending, financed through temporary increases in budget revenues or higher private savings reflecting larger export receipts, did not result immediately in pressures on the fiscal and external positions. In some cases (e.g., Bolivia) the impact was magnified by spending on large investment projects financed abroad and

aimed at taking full advantage of the more favorable conditions in export markets. However, when the export boom subsided (which was the norm for most commodity producers), many countries found it very difficult to curtail spending. When investment had been financed through foreign borrowing, the sequel of the boom-bust cycle often was an unsustainable level of debt service obligations. This was compounded by the steep rise in world interest rates and reduced availability of international credit that took place in the early 1980s. In some cases, the adoption of active countercyclical policies in the form of increased government spending or personal transfers (e.g., Korea) resulted in a further widening of the deficit.

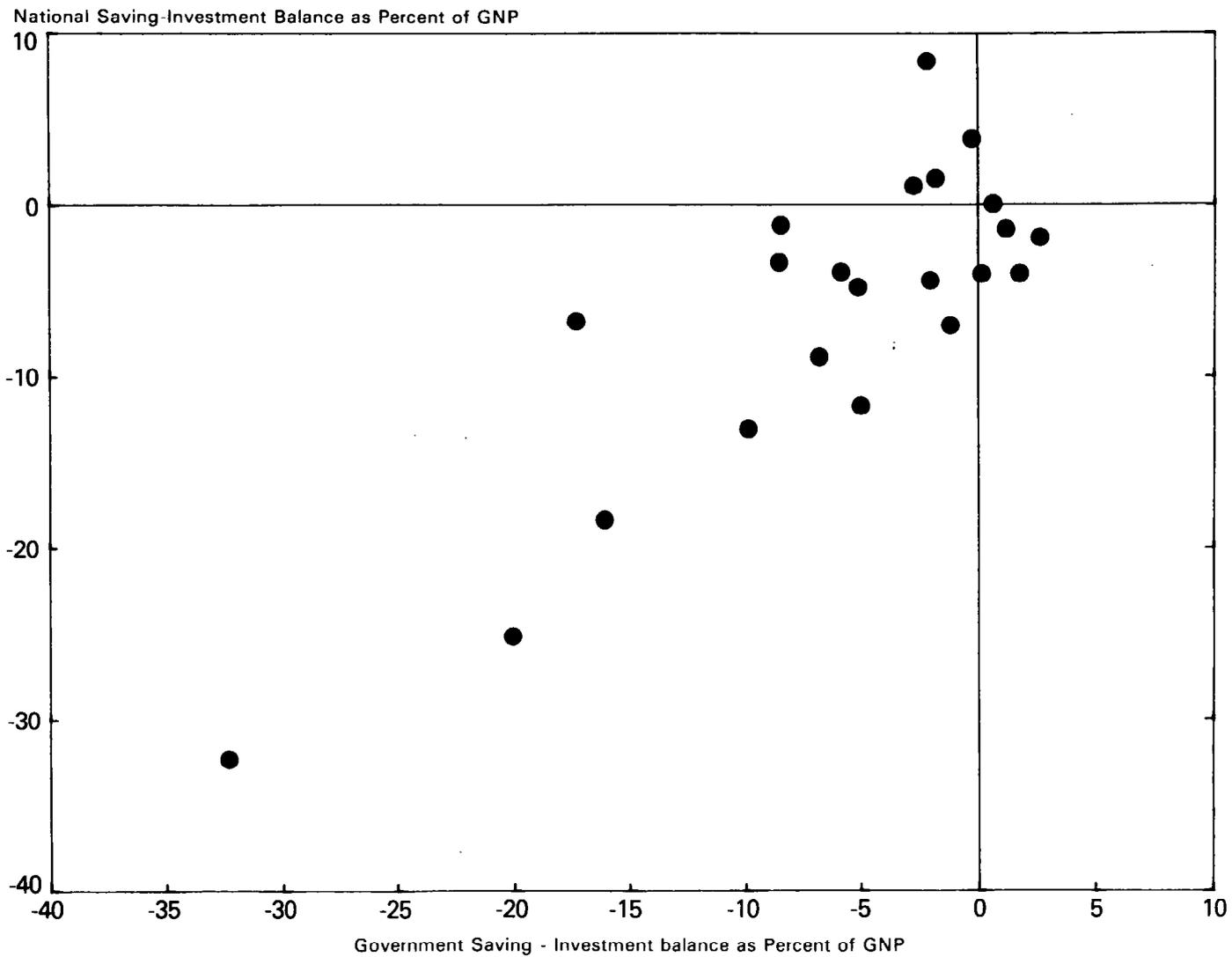
Although budget revenues fluctuated (in some cases sharply) in response to temporary domestic or external disturbances, increases in spending clearly were the main factor responsible for the growing fiscal disequilibrium in the countries under review (Chart 3). Considering the period immediately preceding the initiation of adjustment, the average and median fiscal deficit of countries in the sample increased by the equivalent of, respectively, 5.5 and 3.5 percentage points of GDP (Table 6). The average increase in spending during the same period was equivalent to 6 percentage points of GDP, split about evenly between current and capital spending, while revenue increased 0.7 percentage points.

3. Monetary imbalances

Over the years leading up to the period studied nearly all countries in the sample shared similarities in the pattern of credit and money growth. While the duration and severity of the monetary imbalance varied widely, the large majority of sample countries experienced nominal credit growth in excess of nominal money growth and an accompanying decline in net foreign assets. At the time during the 1977-1980 interval when adjustment measures were adopted, 18 of the countries in the sample had experienced credit growth in excess of the rate of growth of broad money on average over the four prior years. The magnitude of the difference between credit growth and money growth varied substantially across cases. At the extreme, there were 13 cases of increases in credit relative to starting broad money that exceeded money growth itself on average by 10 or more percentage points over the four preceding years and two cases where the difference was between 5 and 10 percent.

Reflecting the widespread contribution of large or growing fiscal deficits to the emergence of domestic and external imbalances, the most common cause of rapid credit growth was large expansion of credit to the government (Charts 4 and 4a). Increases in credit to the government alone actually exceeded the growth of broad money in six cases (Egypt, Guyana, Jamaica, Mauritius, Sudan, and Zambia). Credit to the private sector, consistent with the earlier observation of relative stability of the saving/investment balance of the nongovernment sector, did not show any particular trend. In about one third of the cases, the faster expansion

CHART 2
 NATIONAL AND GOVERNMENT SAVING—INVESTMENT BALANCES
 PERFORMANCE PRIOR TO INITIATION OF ADJUSTMENT¹

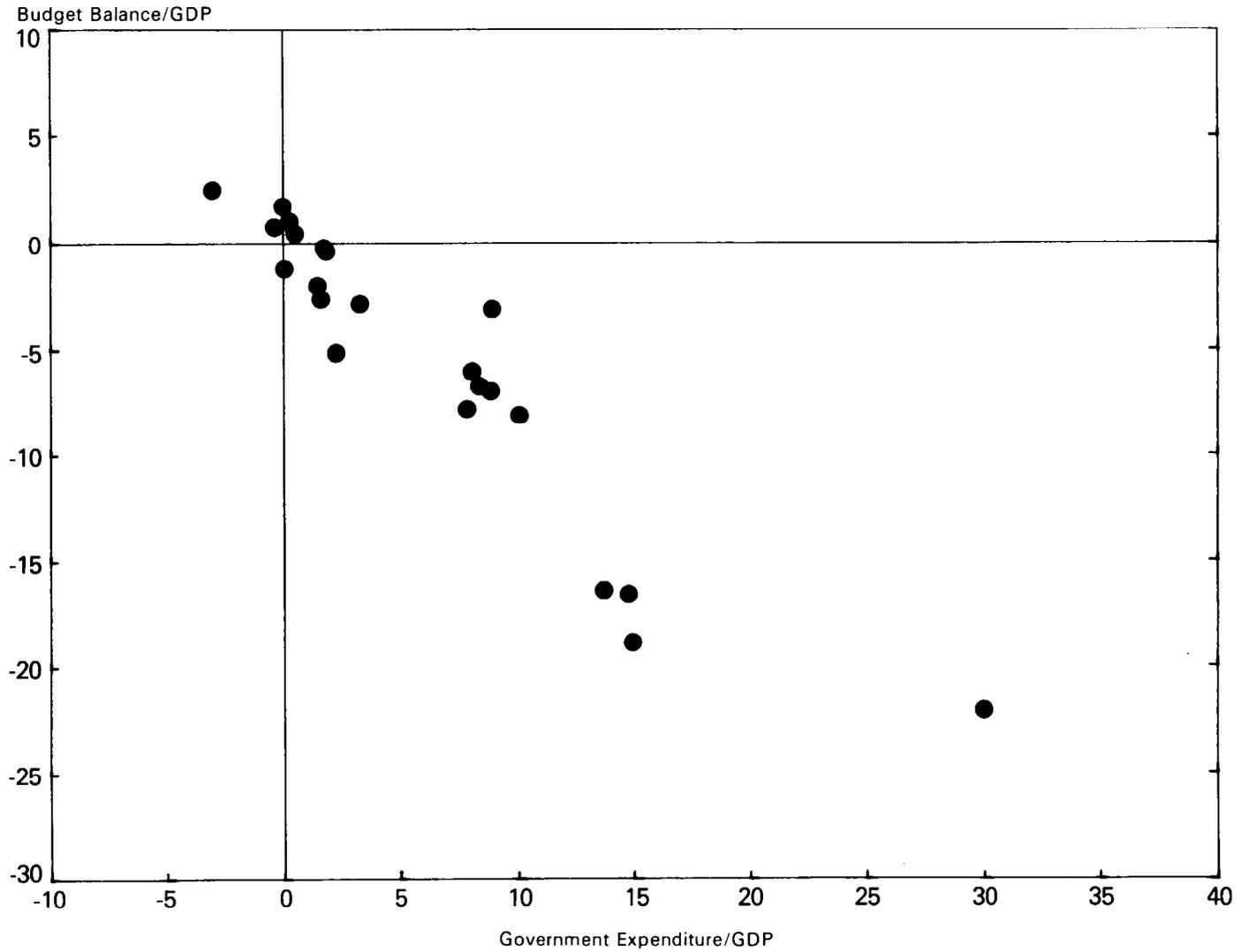


¹Average during two year period immediately preceding adjustment less average in preceding years.



CHART 3

BUDGET BALANCE AND EXPENDITURE OVER GDP:
PERFORMANCE PRIOR TO INITIATION OF ADJUSTMENT¹



¹Average during two-year period immediately preceding adjustment less average in preceding years.



Table 6. Fiscal and Monetary Developments for Sample Countries Before the Initiation of Adjustment

	All Years Before <u>1/</u>	Four-Year Period Preceding Initiation of Adjustment		
		First half	Second half	Total
(In percent)				
Fiscal <u>2/</u>				
Revenue				
Average	20.4	20.9	21.6	21.3
Median	19.8	20.6	20.9	20.6
Expenditure				
Current				
Average	18.3	17.4	20.3	18.9
Median	16.5	16.4	18.1	17.2
Capital				
Average	9.6	8.9	12.2	10.6
Median	8.5	8.5	9.1	8.9
Balance				
Average	-7.5	-5.4	-10.9	-8.2
Median	-6.5	-5.1	-8.6	-6.8
Money and credit <u>3/</u>				
Money				
Average	24.2	24.8	22.3	23.6
Median	21.9	22.9	19.4	21.9
Credit				
Average	34.0	27.2	39.5	34.0
Median	31.6	25.1	42.7	29.6
Of which: to government				
Average	13.3	5.6	20.0	13.6
Median	13.3	4.1	18.2	12.9

Sources: Appendix Tables VIII-XI, XIII-XV.

1/ Since 1973.

2/ As percentage of GDP.

3/ Percent increase. For credit, increase relative to initial money stock.

of government credit was accompanied by sharply constrained growth rates of private sector credit; the rest of the cases show a mixed pattern with years of both rapid and slow growth of credit to the private sector.

Beyond the relative evolution of credit and money aggregates and frequently contributing to the emergence of growing imbalances, structural impediments hampered in many cases the efficient operation of financial systems. Some of these impediments were maintained as deliberate instruments of policy such as controls on interest rates or on the sectoral allocation of credit. The reasons why such controls were maintained included inter alia, (i) the desire to contain the cost of servicing the domestic portion of the public sector debt; (ii) the desire to suppress the crowding out of private sector spending that might result from the higher interest rates caused by government deficits; (iii) the suspicion that oligopolistic practices in financial markets would result in higher interest rates and larger spreads than justified; (iv) fears that higher interest rates and an unhindered distribution of credit would impair development goals by depressing investment in key sectors; and (v) worries that reforms might weaken certain financial institutions saddled with fixed interest rate assets.

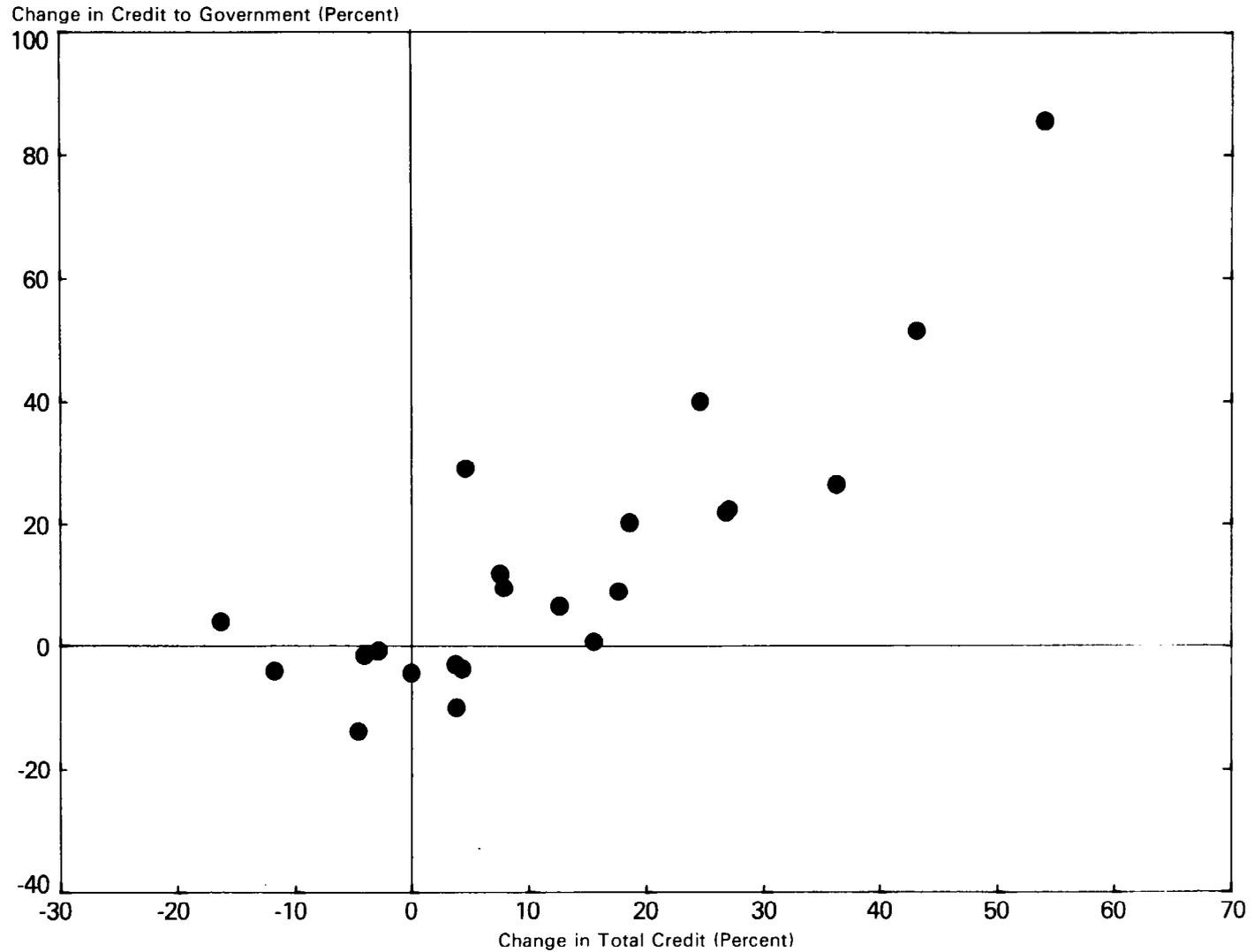
As is often the case in this area, it is difficult to quantify the impact of financial policies of this type. First, it is difficult to assess the effectiveness of such controls or to quantify the benefits perceived by the authorities as associated with the maintenance of such controls. Second, the maintenance of controls was often inextricably linked to the policy of rapid credit growth itself, making it difficult to separate the impact of excessive credit growth from the impact of the controls intended to contain certain of its undesirable effects. In some cases, however, inadequate policies in one area clearly reinforced and exacerbated difficulties in the other. In particular, many of the sample countries maintained low interest rates for deposits while inflation rates were rising, resulting in increasingly negative real interest rates. The outcome was typically a reduction in the demand for real money balances and the inefficient use of the available financial resources. The unwillingness to maintain real money balances worsened the inflationary consequences of the established credit policies which in turn intensified balance of payments difficulties. In the year before adjustment began, ten member countries in the sample actually experienced falling real money balances.

4. Exchange rate maladjustments

Exchange rate policy, taking into account both recent and long-standing problems of currency overvaluation, was a primary factor in prevailing balance of payments difficulties in eleven of the cases under review (Appendix Table XVI). Exchange rate policy contributed to a lesser extent in seven other cases. Both the median and average change in real effective exchange rates for all countries in the sample indicate small depreciations during the four-year period prior to the adoption of adjustment policies. However, individual circumstances

CHART 4

PERCENTAGE CHANGE IN TOTAL CREDIT AND CREDIT TO GOVERNMENT:
PERFORMANCE PRIOR TO INITIATION OF ADJUSTMENT¹

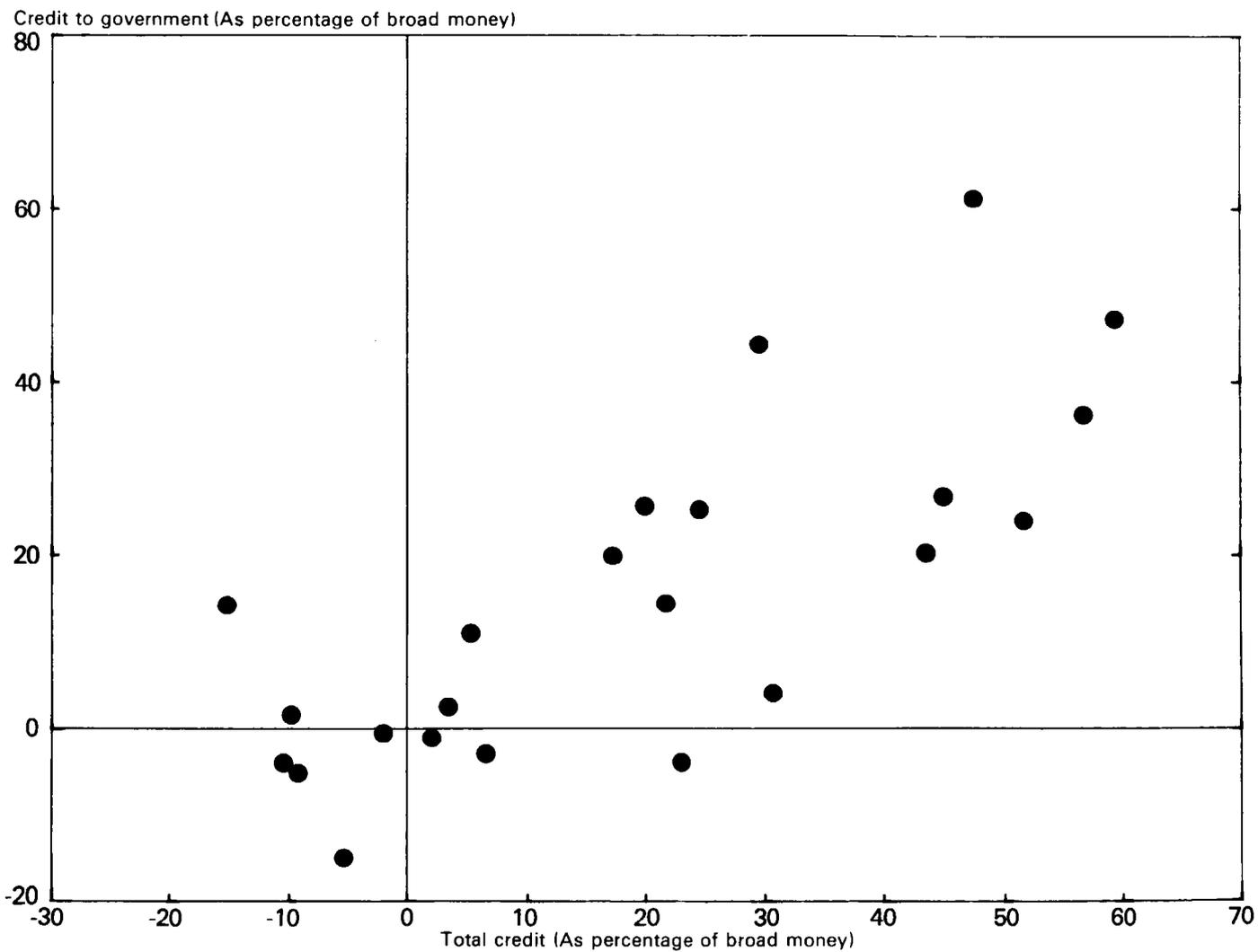


¹Average during two year period immediately preceding adjustment less average in preceding years. Credit variables reflect change in stocks as a percentage of broad money stock at the beginning of the period. Ratios of government credit as a percentage of total domestic credit are shown in Table XVa.



CHART 4a

TOTAL CREDIT AND CREDIT TO GOVERNMENT AS PERCENTAGE OF BROAD MONEY¹



¹Average during two-year period immediately preceding adjustment less average in preceding years.



differed widely, with four of the countries under review experiencing real effective appreciations of 10 percent or more during this four-year period. In other cases, although not then appreciating further, the exchange rate had been overvalued for some time.

5. Supply constraints

The countries under review faced a wide range of structural constraints. These reduced the ability of the domestic productive sector to supply and export goods and services consistent with the full potential of the economy, defined in terms of the resource base and technological capabilities. The constraints were associated mainly with either an inappropriate sectoral allocation of resources or an inadequately developed productive base, the latter in some cases the consequence of low rates of saving and investment. Such limitations were of particular concern given the need for elimination of large economic and financial imbalances.

A sectoral allocation of available resources hampering productivity gains and limiting growth was a common source of difficulty for the countries under review. Such problems were generally associated either with a distorted set of relative prices and incentives or with other impediments to the normal functioning of the allocative system. In a number of cases, this situation was attributable to policies that had been introduced earlier to help achieve other objectives, e.g., food or energy subsidies to offset increases in world prices frequently believed at the time to be, at least in part, transitory.

Significant distortions of the pricing system were present in a majority of the countries under review. The most common such distortion was the maintenance of an exchange rate that did not provide adequate incentives to domestic producers of exports and import substitutes. Price distortions and associated resource allocation problems frequently also stemmed from the existence of price and trade controls and/or direct subsidies on important commodities, usually tradable goods. Such policies inhibited local production and distribution of the affected items and close substitutes and sometimes proved to be counterproductive in that availability at the subsidized or controlled price could not be assured; anecdotal evidence suggests that, in such instances, effective prices outside the limited official distribution system may have been at least as high as might have been the case in the absence of controls. In many countries, taxation, tariff, and producer pricing policies also contributed to an inappropriate structure of incentives.

Distortions in the sectoral allocation of resources also resulted from factors not related to the pricing system. In many of the countries under review, inefficient management of important sectors of the economy (frequently through public enterprises or official marketing agencies) or cumbersome administrative procedures, combined with extensive regulation of the economy, hampered production and also introduced

rigidities that reduced the ability of the economy to adapt to changes in exogenous circumstances. In a number of cases, exchange and trade restrictions were widespread and severe, eliminating international substitutes as standards for domestic producers, increasing costs, and adversely affecting the competitiveness of domestic goods. Finally, legislative and other institutional constraints created inappropriate incentives and caused a suboptimal use of available resources (e.g., labor, land tenure and industrial laws in Peru; land use policies in Sudan); in some cases, these constraints substantially reduced the ability of the government to use certain policy instruments (e.g., earmarking of budgetary revenues in Costa Rica, guaranteed public employment in Egypt, large foreign currency denominated component of the money supply in Egypt, Peru, and Turkey).

Frequently, these problems were reflected in large deficits of state enterprises. In some cases, efforts to limit such losses by granting preferential treatment to state enterprises (e.g., low or interest-free bank credit or capital transfers, tax exemptions, preferential exchange rates) created further distortions. In several cases, the lack or poor quality of statistical information hampered the analysis of the weak performance of state enterprises and the development of a sounder basis for control of their operations and planning their financial needs.

Apart from problems resulting from an inappropriate sectoral allocation of resources, although frequently intertwined with these, supply constraints in many cases reflected an inadequately developed productive base and a low growth potential. The most obvious manifestations of this problem were an economic structure characterized by a high degree of concentration of output, a poorly developed infrastructure, and/or a weak or fragile system of administration.

In several cases, the economy was extremely vulnerable to developments in international markets owing to a concentration of exports on one or a few commodities. ^{1/} An inadequate infrastructure was also a problem in a few countries. In some cases, this reflected a need for new facilities that had become necessary owing to political developments (e.g., the impact on Kenya and Tanzania of the dissolution of the East African Community) or the stage of development of the country. In others, the existing infrastructure was obsolete or had deteriorated to the point that major bottlenecks had emerged (e.g., Bangladesh, Egypt, Sri Lanka, Sudan, and Tanzania). Finally, a fragile or weak administrative capacity was a serious constraint in a number of countries (e.g., Bolivia, Gabon, Guyana, Liberia, Mauritania, Senegal, Sudan, and Tanzania).

^{1/} Bolivia (mining and natural gas), Gabon (oil and timber), Guyana (sugar), Jamaica (sugar and bauxite), Liberia (iron ore), Mauritania (mining), Mauritius (sugar), Morocco (phosphates), Peru (mining), Senegal (groundnut products), Sudan (cotton), and Zambia (copper).

Constraints also were frequently associated in these cases with the low level and composition of saving and investment. A reorientation of investment to more productive sectors or with higher short-term rates of return was considered to be necessary in many of these cases (e.g., the Philippines, where problems associated with the composition of investment included certain private investments financed with loans guaranteed by the public sector). Most of the countries under review were at a stage of development when they could benefit substantially from a higher level of investment, but in a few instances, investment rates had fallen so low that the existing capital stock was declining (e.g., Bangladesh, Sri Lanka, Sudan, and Tanzania). At the other extreme, however, there were some cases in which the level of investment was so large that it strained the absorptive capacity of the economy. Higher domestic saving was considered to be necessary in virtually all of the countries included in the sample.

In a number of the countries under review, the scope and effectiveness of policies were subject to other limitations. A low absolute level of income of a large component of the population characterized several countries and policies had to be formulated so that certain more vulnerable groups would not undergo severe hardship. Security problems, both external and domestic, confronted several countries and a considerable amount of resources sometimes were allocated for this purpose (e.g., Kenya, Morocco, Tanzania, and Zambia). A lack of political stability and frequent changes in the political leadership also complicated implementation of a sustained set of policies in some instances (e.g., Bolivia and Turkey).

The severity of structural problems and their importance for the adjustment effort varied considerably among the countries under review. Although all of the cases examined were affected by structural problems to some degree, there were a number of instances in which the constraints had only a relatively limited or moderate impact on the economy and on the effectiveness of adjustment policies (e.g., Kenya, Korea, and Panama). By contrast, there were other cases in which structural difficulties were or had become pervasive and severe (e.g., Bolivia, Guyana, Sri Lanka, and Tanzania). Most commonly, significant structural problems hampered several sectors in the economy. In these instances, structural problems varied from the relatively serious (e.g., Bangladesh, Egypt, Jamaica, Peru, and Sudan) to less severe but still significant difficulties that posed strong challenges to economic policies (e.g., Liberia, Malawi, Mauritius, and Morocco). In other instances, although structural constraints were not widespread, they were present in key sectors and thus were particularly important for the adjustment effort (e.g., Costa Rica, Gabon, Pakistan, Philippines, and Turkey).

The structural problems described above had been in existence for a number of years in most of the cases reviewed. Only in a few instances did significant structural problems not become apparent until shortly before the initiation of adjustment measures; these were generally a result of altered external circumstances (e.g., the disruption

of regional transport linkages affecting Malawi and Zambia). However, the emergence of larger and longer lasting imbalances in recent years contributed to increased efforts being devoted to relieving such constraints in order to ease the burden borne by adjustments of domestic demand.

IV. Adjustment Policies

1. Overview

Each of the countries under review introduced policies aimed at restoring external and domestic equilibrium during the period 1977-1980, but there were considerable differences in the degree of firmness with which these policies were pursued. In some cases these efforts were resolute and, once initiated, were maintained persistently over the medium term. While unexpected developments, in particular the second oil price increase and higher interest rates on international capital markets, tested the persistence and flexibility of policy implementation in most of the cases under review, these countries adjusted quickly to the new situation and avoided setbacks to the adjustment effort which could have proven difficult to reverse. In other cases, however, early adjustment efforts were abandoned, the period following the initiation of adjustment often taking the form of alternating episodes of tightening and easing of policies.

The wide ranging nature of economic and financial difficulties which led to the emergence of large and growing imbalances was reflected in a similar diversity in the economic policies adopted in support of the required adjustment effort. While policies frequently were focused, at least initially, on controlling or reducing domestic demand, the relative weight of policies aimed at improving the performance and allocation of domestic production increased continuously during the period under review. Economic and financial programs supported by use of Fund resources were focused largely on control of domestic demand throughout the period under review in only relatively few cases (e.g., Costa Rica, Kenya, Mauritania, and Panama). In many cases adjustment efforts involved, either from the beginning or through modifications over time, strategies giving significant weight both to demand and supply considerations.

Reflecting the predominant role of widening overall budget deficits in the emergence of initial imbalances, demand-management policies were focused in most cases on achieving sustained reductions in these deficits. Monetary and credit policies were intended to be supportive of fiscal adjustment in reducing excess demand pressures, but only in relatively few cases were they expected to play the primary role in controlling or reducing domestic demand. Financial policies also were frequently aimed at increasing the availability of credit to the non-government sector or at increasing the total availability of domestic financial savings in support of expanded investment and production.

In many cases the shift of resources to the external sector to alleviate payments difficulties was to be facilitated by adjustments in exchange rates or simplifications of complex exchange rate systems. However, exchange rate action resulting in a significant change of relative prices was included in the policy program initiating the adjustment effort in only relatively few cases. In several cases action in this area or steps to strengthen initial measures were taken only later, frequently in the context of subsequent economic and financial programs supported by new arrangements with the Fund.

2. Fiscal policy

Efforts to reduce budget deficits were generally aimed both at improving revenue performance and reducing expenditures. Measures to this end covered a wide range, from specific tax increases or curtailment of spending on certain items of expenditure to the adoption of broad targets for revenue or expenditure performance. Success in achieving and maintaining these objectives varied widely across the countries included in the sample.

Measures to reduce spending were more frequent in the areas that gave rise to the problem in the first place. In the simplest cases spending fell sharply, reversing a similar sharp increase in preceding years, because of the completion of the effort that had caused the original increase in spending. Such cases included extraordinary investment related to a specific event (such as investment in new facilities for the OAU meetings in Gabon and Liberia) and lower military expenditures following the termination of hostilities (e.g., Mauritania).

Measures to moderate wage increases and contain hiring, including wage and hiring freezes, were instituted in a number of countries (e.g., Kenya, Korea, Liberia, Madagascar, Mauritania, Morocco, and the Philippines) to counteract a rising trend in wage outlays. In many of these cases, however, the measures were eased or abandoned once the economic situation improved, or when their implementation became politically difficult. The scaling down of subsidies to the private sector was also frequently an important measure of adjustment (e.g., Bangladesh, Korea, Kenya, the Philippines, and Senegal), in particular when subsidies had given rise not only to pressure on the public finances but to a severely distorted price structure.

Restraint in capital spending also frequently contributed to fiscal adjustment efforts in the countries under review. In some cases this resulted simply from the completion of investment projects, while in other cases, it reflected either a recognition that capital expenditures had become excessive in light of available financing (which may itself have been contracting, forcing a reduction of expenditures) or the relative ease of scaling down projects rather than cutting sensitive areas of current spending such as wages or subsidies. Supporting measures in this area included the streamlining of investment planning

to prevent the initiation of unprofitable or unfinanceable projects, as well as to set priorities for the completion of projects if funds became scarce (e.g., Bangladesh, Liberia, Madagascar, and Mauritania).

Revenue increases were also a very important element of fiscal adjustment in the countries under review. Although inadequate tax collection procedures were frequently blamed for fiscal problems, only in relatively few cases (e.g., Costa Rica, Madagascar, Mauritius, and Morocco) was a vigorous effort to improve tax administration undertaken. Such efforts met with significant success in even fewer cases. More frequently, efforts to raise revenues took the form of increases in tax rates and the imposition of new taxes (e.g., Costa Rica, Gabon, Liberia, Madagascar, Malawi, Mauritius, Morocco, and the Philippines). Temporary tax levies such as surcharges or emergency taxes were not used frequently in the cases being reviewed.

The evolution of budget revenues, expenditures, and deficits relative to GDP during the period preceding and following the initiation of adjustment efforts are shown in Appendix Tables VIII to XI. A general overview of the pattern and sustained nature of fiscal adjustment is presented in Table 7 by comparing changes in revenues and expenditures relative to GDP during the period when adjustment was initiated and in later stages of the adjustment period with their respective values in the period immediately preceding the initiation of adjustment. 1/ For the 22 countries for which the comparison could be made, the budget deficit was reduced, on average, by about 1.5 percentage points of GDP following the adoption of adjustment policies. However, there was considerable disparity among countries both with respect to the magnitude and timing of this adjustment. Thirteen of the countries had achieved a reduction in the deficit in the third and fourth year of the adjustment period compared to the deficit before the initiation of adjustment, ten of them by more than the equivalent of 1 percentage point of GDP. 2/ The average and median reduction in the fiscal deficit for these countries were, respectively, 5.0 percentage points of GDP (2.8 percentage points if Gabon, for which a very large reduction of the deficit was recorded, is excluded from the group) and 1.6 percent of GDP. In contrast, widening deficits were experienced during the same period in nine countries, in five of them the increase exceeding the equivalent of 3 percentage points of GDP, with average and median increases of 3.8 percentage points of GDP.

1/ Once again the period immediately following the adoption of adjustment measures refers to the first two years of the adjustment period while references to later years are to the third and fourth year following the initiation of adjustment.

2/ The discussion in this section is based on actual fiscal revenues and balances. However, the behavior of cyclically adjusted balances for countries that did and those that did not reduce their deficits did not differ significantly from that of actual balances during the period under review (Appendix Table XII).

Table 7. Changes in Budget Expenditures and Revenues Relative to GDP Following the Initiation of Adjustment

	<u>Current Spending</u>		<u>Capital Spending</u>		<u>Revenue</u>		<u>Balance</u>	
	First half <u>1/</u>	Second half <u>2/</u>	First half	Second half	First half	Second half	First half	Second half
Countries with deficit increases <u>3/</u>								
Guyana	-3.13	6.93	-8.99	2.21	-3.00	1.89	9.13	-8.93
Sri Lanka	4.66	1.27	5.88	9.28	7.18	3.06	-3.23	-7.50
Tanzania	7.38	9.63	2.52	0.35	2.47	3.58	-7.43	-6.40
Bolivia	2.63	2.90	-1.67	-2.59	-0.29	-3.79	-1.25	-4.09
Kenya	2.97	5.47	1.77	2.11	2.45	3.58	-2.28	-3.84
Bangladesh	2.04	1.54	2.17	1.94	1.15	0.86	-3.06	-1.15
Senegal <u>4/</u>	2.86	0.17	-0.66	-1.97	-0.68	-2.92	-3.38	-1.13
Korea	1.12	1.56	1.83	0.27	1.13	0.91	-1.82	-0.91
Jamaica	<u>3.16</u>	<u>5.79</u>	<u>-1.12</u>	<u>-3.26</u>	<u>1.32</u>	<u>2.49</u>	<u>-0.72</u>	<u>-0.04</u>
Average	2.63	3.92	0.19	0.93	1.30	1.07	-1.56	-3.78
Median	2.86	2.90	1.77	0.35	1.15	1.89	-3.06	-3.84
Countries with deficit reductions <u>3/</u>								
Liberia	5.28	12.05	-6.19	-9.25	0.23	3.18	1.14	0.38
Pakistan	-0.98	1.69	-0.81	-1.71	0.39	0.88	2.17	0.90
Madagascar	0.20	-4.78	4.16	-0.74	-3.28	-4.55	-7.65	0.96
Mauritius	1.88	3.46	-0.54	-2.81	1.43	1.73	0.09	1.08
Morocco	2.17	5.51	-6.98	-7.86	-0.89	-1.13	3.91	1.21
Malawi	2.13	0.53	-0.36	-4.56	0.17	-2.71	-1.96	1.31
Turkey	-2.79	-5.20	-0.25	-1.75	-3.04	-5.38	0.02	1.57
Costa Rica	0.34	1.01	0.03	-0.98	-0.35	2.61	-0.74	2.57
Egypt	-5.29	-2.03	5.71	5.85	4.12	6.75	3.70	2.99
Peru	-1.24	0.74	-0.54	0.84	2.32	4.66	4.10	3.07
Zambia	-4.54	-0.71	-3.27	-7.30	-0.92	-1.90	6.88	6.11
Mauritania	2.02	-3.51	-4.56	-8.17	13.81	0.05	16.36	11.73
Gabon	<u>8.67</u>	<u>5.45</u>	<u>-21.46</u>	<u>-27.41</u>	<u>10.49</u>	<u>8.89</u>	<u>23.28</u>	<u>30.85</u>
Average (Excluding Gabon)	0.60	1.09	-2.70	-5.07	1.88	1.01	3.95	4.98
Median	(-0.07)	(0.73)	(-1.13)	(-3.21)	(1.17)	(0.35)	(2.34)	(2.82)
All countries	0.34	0.74	-0.54	-2.81	0.23	0.71	2.17	1.57
Average	1.43	2.25	-1.52	-2.62	1.64	1.03	1.70	1.40
Median	2.03	1.55	-0.54	-1.73	0.76	1.40	-0.35	0.93

Sources: Appendix Tables VIII-XI.

1/ First two years following the initiation of adjustment compared to the two years immediately preceding.

2/ Third and fourth year of adjustment period compared to the two-year period immediately preceding the initiation of adjustment.

3/ Following the initiation of adjustment.

4/ Excludes transfers to Treasury correspondents and extrabudgetary development outlays. See Appendix Tables IX and X.

With one exception (Guyana), countries in this latter group experienced a wider deficit not only later during the period under review but also during the period immediately following the initiation of adjustment. In contrast, 10 of the 13 countries which achieved a lower deficit did so immediately following the initiation of adjustment. In assessing the degree of adjustment achieved, it should be noted that only six countries (Costa Rica, Gabon, Pakistan, Peru, Senegal, and Turkey) had achieved in the later stages of the adjustment period a reduction of fiscal deficits to a level equal to or lower than that prevailing in the third and fourth year preceding the initiation of adjustment. 1/

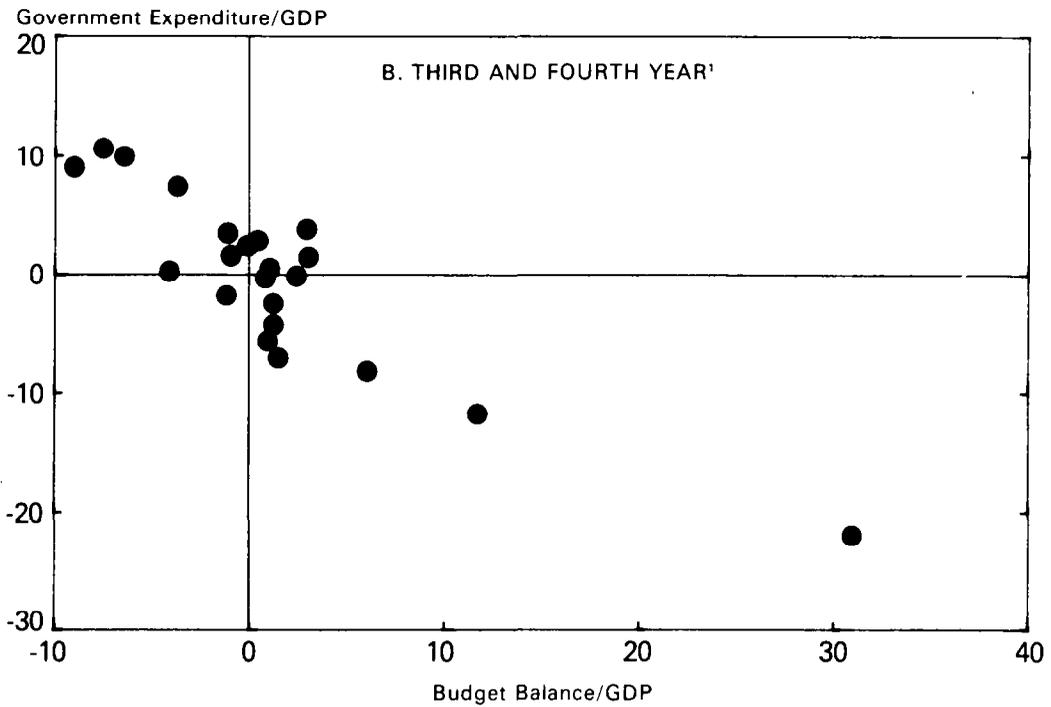
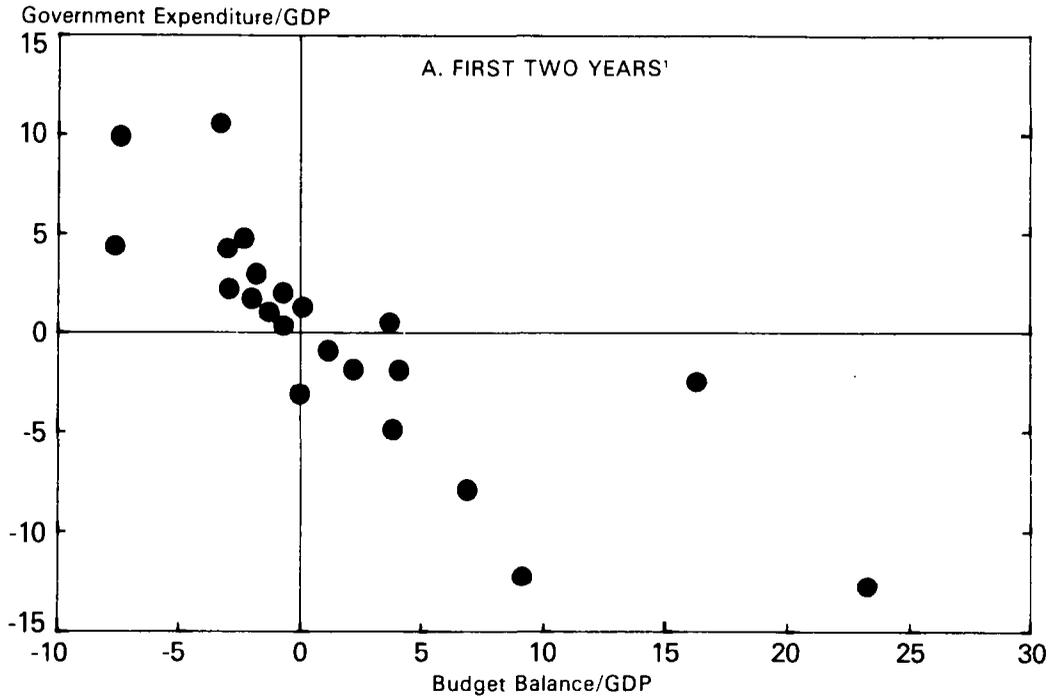
The largest contribution to fiscal adjustment in the countries that reduced their fiscal deficit clearly came from reductions in spending (Chart 5). In particular, capital spending fell on average by the equivalent of 2.7 percentage points of GDP immediately following the initiation of adjustment and a further 2.3 percentage points later on (1.3 percent of GDP immediately and a further 2 percentage points if Gabon is excluded). Eleven of the 13 countries in this group reduced their capital expenditures, typically reversing a sharp increase in such spending in preceding years. In contrast, in the group of countries that did not reduce their fiscal deficit, capital spending increased, on average, by the equivalent of 1 percent of GDP; only two countries in this group reduced capital spending relative to GDP. Most of the countries which reduced capital spending as part of the initial adjustment program sustained and further intensified this effort in subsequent years.

The second major element differentiating countries that achieved a reduction in fiscal deficits from those that did not was restraint in current budget spending. Current expenditures relative to GDP in the latter group increased on average by 3.9 percentage points during the four-year period following the initiation of adjustment compared to only about 1 percentage point for countries that achieved a reduction of the deficit. Of those countries that experienced a widening fiscal deficit, only Guyana achieved a reduction of current expenditures relative to GDP during the period immediately following the initiation of adjustment; however, both capital and current expenditures of the Guyana Government subsequently expanded sharply relative to GDP. The greater difficulty of sustaining restraint in current rather than capital spending was apparent in many countries, several experiencing a substantial increase of current expenditure relative to GDP in the third and fourth year of the adjustment period compared to the period immediately following the initiation of adjustment. Only in a few cases was a sustained reduction of current spending relative to GDP achieved. Typically, however, the original restraint of current spending was better maintained in the case of countries that achieved a reduction of their fiscal deficit during the adjustment period.

1/ However, in the case of Peru, public sector enterprises were engaging in major investments, especially for energy programs, during the same period.

CHART 5

CHANGE IN RATIOS TO GDP OF BUDGET BALANCE AND EXPENDITURE FOLLOWING INITIATION OF ADJUSTMENT



¹Compared to two-year period preceding initiation of adjustment.



The contribution of increased revenue efforts to adjustment was also important. The median increase in fiscal revenue amounted to 0.8 percent of GDP in the first two years following the initiation of adjustment efforts, and an additional 0.6 percent of GDP in the next two years. The revenue effort differed much less than performance in controlling expenditures between countries that did and countries that did not achieve a reduction of their fiscal deficit. Once again performance did not change substantially between the first two and later two years of the adjustment period: countries which achieved a strong revenue performance during the period immediately following the initiation of adjustment efforts generally sustained their relatively stronger performance in later years while few of the countries which experienced a weakening revenue performance early in the adjustment period were able to reverse this weakness in subsequent years.

3. Money and credit policies

Each of the countries in the sample initiated adjustment policies aimed at the restoration of equilibrium between the demand for and supply of financial resources. Stabilization efforts generally focused on the limitation of public sector claims on financial resources, the release of resources to accommodate private sector credit needs, and various measures to strengthen the growth of demand for real money balances.

In some cases, adjustment efforts included measures aimed at reforming the financial system. Frequently, such measures involved increasing or eliminating statutory limits on interest rates, both deposit and lending rates. For the wide majority of cases, however, real interest rates remained negative (at least ex post real rates) following the initiation of adjustment. Only in four cases did real interest rates become positive during the four-year period following the initiation of adjustment (Bangladesh, Korea, Mauritius, and Turkey) (Table 8).

Other measures of structural reform of the financial system included measures to reverse or limit "dollarization" both by regulation of dollar-denominated instruments (e.g., Philippines) and realignment of the relevant interest rates, and measures aimed at improving the number or quality of financial institutions or instruments for saving and investment available to the public and to other financial institutions. The purpose of such moves was both to deepen financial intermediation and facilitate central bank management of money and credit conditions. Reforms of this latter type included the creation of a development bank in Sri Lanka and the introduction of money market operations or instruments in Bangladesh, Morocco, and the Philippines. In other cases, reform measures involved a reorientation of financial strategy away from preferential credit terms for key sectors toward a more market-oriented policy. In Korea, for example, the authorities changed the instruments of money and credit policy from emphasis on credit control to reserve money management.

Table 8. Real Ex-Post Interest Rates on Deposits
of up to One-Year Maturity

(In percent)

	Four Years Before			Four Years After		
	First half	Second half	Total	First half	Second half	Total
Positive real interest rates 1/						
Bangladesh	3.9	-2.1	0.9	-3.5	1.9	-0.8
Korea	2.7	1.2	1.9	-3.0	3.7	0.3
Mauritius	-4.8	-3.1	-4.0	-13.2	3.8	-4.7
Turkey	-10.7	-27.2	-19.0	-21.2	4.3	-8.5
Other improved real interest rates 2/						
Gabon	-12.0	-9.8	-10.9	-3.5	-2.3	-2.9
Kenya	-8.3	-8.9	-8.6	-4.6	-3.8	-4.2
Morocco	-8.0	-5.6	-6.8	-2.5	-2.7	-2.6
No significant change						
Guyana	-6.5	-2.9	-4.7	-6.0	-4.7	-5.3
Malawi	2.7	-2.1	0.3	-3.0	-1.5	-2.3
Mauritania	-4.8	-8.0	-6.4	-4.0	-4.2	-4.1
Peru	-11.0	-17.0	-14.0	-20.9	-14.8	-17.8
Zambia	-3.3	-7.6	-5.5	-9.3	-2.9	-6.1
Average						
Median						
Increasing negative real interest rates						
Bolivia	5.2	-2.7	1.3	-10.9	-53.5	-32.2
Costa Rica	5.0	3.3	4.2	-9.3	-21.6	-15.5
Jamaica	-9.5	-3.7	-6.6	-12.7	-15.8	-14.3
Madagascar	0.8	-5.0	-2.1	-14.2	-11.4	-12.8
Sri Lanka	1.8	-2.2	-0.2	0.3	-8.0	-3.8
Tanzania	-10.3	-6.8	-8.6	-13.6	-16.4	-15.0
All countries						
Average	-3.7	-6.1	-4.9	-8.6	-8.3	-8.5
Median	-4.8	-4.4	-5.1	-7.7	-4.0	-5.0

Sources: Data provided by the authorities; and staff estimates.

1/ In the third and fourth year following the initiation of adjustment.
2/ Negative real rates reduced by 5 percent or more.

The evolution of money and credit aggregates relative to GDP during the period preceding and following the initiation of adjustment efforts is shown in Tables 9 and 10. The median for the countries in the sample indicates a slowdown in the rate of growth of both credit and money during the period immediately following the initiation of adjustment. However, although wide differences are apparent across individual countries or groups of countries, both credit and money generally increased relative to GDP. In some cases, this was a positive development, as the restoration of sound financial and fiscal policies led to a resurgent demand for money, a fall in velocity, and the opportunity to expand more domestic credit without endangering reserve levels. In other instances, however, it was a reflection of a less contractionary stance of financial policies than was appropriate in the circumstances. 1/

The ratio of domestic credit to GDP was reduced in five cases during the four-year period following the initiation of adjustment, only three of which, however, achieved a sustained reduction in the rate of increase of credit relative to the growth of real GDP throughout this period (Costa Rica, Gabon, and Pakistan). 2/ In another nine cases, despite a decelerating rate of growth of credit, the ratio of credit to GDP recorded further significant increases, while both the rate of expansion of credit and its ratio to GDP increased further in nine cases. These developments reflected primarily differences as regards credit to the government (Chart 6). Credit to the government sector relative to GDP was lower in the third and fourth year of the adjustment period than during the period immediately preceding the adoption of adjustment policies in only seven cases, including all five cases which achieved a reduction of the ratio of total domestic credit to GDP. The typical country in this group reduced the annual rate of expansion of credit to the government from 26 percent of the initial money stock during the period immediately preceding the initiation of adjustment to 17 percent in the next two years and, subsequently, to 4 percent. Credit to the nongovernment sector 3/ relative to GDP was reduced in eight cases, three of which had experienced an acceleration of such credit prior to the initiation of adjustment measures.

1/ The extent to which these developments represented deviations from the policy targets provided by the authorities of the countries concerned, cannot be readily determined except in those cases where adjustment programs had been presented in connection with stand-by or extended arrangements. During much of the period covered in the present study, not all countries in the sample had Fund arrangements. However, in those cases where arrangements for the use of Fund resources existed, policy programs generally aimed at a deceleration of money and credit growth. The record of implementation of these policy programs and of their target attainment has been examined in various recent studies (for references see footnote on page 1).

2/ As an indicator of inflationary impulse, the expansion of domestic credit should be taken relative to the growth of real (not nominal) GDP.

3/ For most countries, including public enterprises.

Table 9. Ratio of Money to GDP

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries which reduced the ratio of credit to GDP <u>3/</u>								
Costa Rica	33.77	33.88	40.35	37.12	43.12	42.21	42.67	42.67
Gabon	16.12	13.59	18.60	16.10	19.95	17.07	18.51	18.52
Pakistan	34.88	35.66	38.68	37.17	36.55	39.44	37.99	37.99
Peru	24.51	26.72	22.13	24.43	21.10	25.51	23.30	24.79
Turkey	<u>27.55</u>	<u>27.77</u>	<u>25.11</u>	<u>26.44</u>	<u>22.95</u>	<u>29.18</u>	<u>26.07</u>	<u>26.07</u>
Average	27.37	27.52	28.98	28.25	28.73	30.68	29.71	30.01
Median	27.55	27.77	25.11	26.44	22.95	29.18	26.07	26.07
Other countries with slower credit growth <u>3/</u>								
Egypt	45.00	44.01	45.98	45.00	51.61	65.42	58.52	68.21
Korea	32.52	31.59	32.33	31.96	33.31	38.11	35.71	35.71
Malawi	21.97	20.95	20.19	20.57	19.85	19.47	19.66	19.66
Mauritania	20.17	20.55	21.61	21.08	21.53	25.60	23.57	24.27
Mauritius	42.80	43.76	43.24	43.50	41.62	42.38	42.00	42.00
Morocco	38.70	37.29	40.99	39.14	43.18	43.90	43.54	44.30
Senegal	24.92	25.91	29.90	27.91	30.35	29.99	30.17	30.17
Sudan	21.26	19.83	24.29	22.06	28.03	29.49	28.76	29.47
Zambia	<u>28.29</u>	<u>24.55</u>	<u>32.03</u>	<u>28.29</u>	<u>32.00</u>	<u>30.77</u>	<u>31.39</u>	<u>32.18</u>
Average	30.63	29.83	32.29	31.06	33.50	36.13	34.81	36.22
Median	28.29	25.91	32.03	28.29	32.00	30.77	31.39	32.18
Others								
Bangladesh	16.99	16.80	18.99	17.90	20.32	22.92	21.62	21.62
Bolivia	15.83	17.96	17.80	17.88	17.85	15.67	16.76	16.76
Guyana	37.65	31.92	42.36	37.14	49.56	52.81	51.19	62.25
Jamaica	29.78	30.64	28.91	29.78	30.86	31.82	31.34	35.54
Kenya	30.67	28.93	34.06	31.49	33.70	31.16	32.43	31.50
Liberia	14.25	14.57	15.75	15.16	9.97	13.16	11.56	11.56
Madagascar	24.35	23.75	28.52	26.14	30.72	24.93	27.83	27.83
Sri Lanka	20.66	18.34	22.20	20.27	26.94	29.10	28.02	28.73
Tanzania	<u>27.26</u>	<u>28.40</u>	<u>25.60</u>	<u>27.00</u>	<u>33.61</u>	<u>42.59</u>	<u>38.10</u>	<u>38.10</u>
Average	24.16	23.48	26.02	24.75	28.17	29.35	28.76	30.43
Median	24.35	23.75	25.60	26.14	30.72	29.10	28.02	28.73
All countries								
Average	27.39	26.84	29.11	27.98	30.38	32.29	31.33	32.60
Median	27.26	26.72	28.52	27.00	30.72	29.99	30.17	30.17

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.

2/ Until 1983.

3/ Following the initiation of adjustment.

Table 10. Ratio of Credit to GDP

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries which reduced the ratio of credit to GDP <u>3/</u>								
Costa Rica	34.49	33.08	41.67	37.38	42.75	28.02	35.39	35.39
Gabon	16.01	11.01	20.71	15.86	25.29	17.90	21.59	19.50
Pakistan	38.79	40.10	42.74	41.42	41.19	43.59	42.39	42.39
Peru	28.82	27.06	32.39	29.72	24.75	20.75	22.75	24.17
Turkey	<u>35.63</u>	<u>40.79</u>	<u>34.45</u>	<u>37.62</u>	<u>28.40</u>	<u>27.49</u>	<u>27.94</u>	<u>27.94</u>
Average	30.75	30.41	34.39	32.40	32.48	27.55	30.01	29.88
Median	34.49	33.08	34.45	37.38	28.40	27.49	27.94	27.94
Other countries with slower credit growth <u>3/</u>								
Egypt	61.16	54.90	67.42	61.16	70.89	87.15	79.02	85.97
Korea	36.72	34.16	37.10	35.63	45.70	52.81	49.26	49.26
Malawi	23.21	25.15	30.46	27.81	34.16	36.50	35.33	35.33
Mauritania	26.13	21.43	33.38	27.40	36.07	39.33	37.70	40.59
Mauritius	37.07	41.52	48.38	44.95	51.29	57.02	54.15	54.15
Morocco	34.90	33.21	37.85	35.53	42.48	46.12	44.30	46.29
Senegal	32.44	31.74	43.23	37.49	50.95	51.88	51.41	51.41
Sudan	32.83	34.34	38.34	36.34	41.98	39.59	40.79	39.74
Zambia	<u>35.88</u>	<u>22.82</u>	<u>48.93</u>	<u>35.88</u>	<u>65.12</u>	<u>60.60</u>	<u>62.86</u>	<u>67.48</u>
Average	35.59	33.25	42.79	38.02	48.74	52.33	50.54	52.25
Median	34.90	33.21	38.34	35.88	45.70	51.88	49.26	49.26
Others								
Bangladesh	18.74	18.79	20.25	19.52	25.46	28.49	26.97	26.97
Bolivia	18.53	18.01	25.57	21.79	28.66	56.35	42.50	42.50
Guyana	42.28	27.35	56.61	41.98	71.73	103.21	87.47	122.89
Jamaica	34.85	32.13	37.57	34.85	42.93	51.28	47.10	56.95
Kenya	25.20	25.67	27.15	26.41	29.80	34.89	32.34	32.05
Liberia	17.34	13.62	23.57	18.60	26.56	37.11	31.83	31.83
Madagascar	25.26	23.78	34.34	29.06	50.78	46.75	48.76	48.76
Sri Lanka	23.73	22.39	24.65	23.52	25.60	38.94	32.27	35.23
Tanzania	<u>26.57</u>	<u>29.62</u>	<u>27.26</u>	<u>28.44</u>	<u>41.10</u>	<u>51.55</u>	<u>46.33</u>	<u>46.33</u>
Average	25.83	23.49	30.77	27.13	38.07	49.84	43.95	49.28
Median	25.20	23.78	27.15	26.41	29.80	46.75	42.50	42.50
All countries								
Average	30.72	28.81	36.26	32.54	41.03	45.97	43.50	46.22
Median	32.44	27.35	34.45	34.85	41.19	43.59	42.39	42.39

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.

2/ Until 1983.

3/ Following the initiation of adjustment.

Increases in the rate of expansion of money or in the money/GDP ratio (the inverse of velocity) do not lend themselves readily to interpretation since higher money balances may be held either voluntarily or, in the presence of exchange and trade restrictions or because of limited possibilities to substitute holdings of real or other financial assets, involuntarily. Only in cases where money holdings increase while credit expansion decelerates can a reduction of financial imbalances of domestic origin safely be inferred. ^{1/} This was clearly the situation for the typical country in the group that achieved a reduction in the ratio of credit to GDP. In other cases, the increase in the ratio of money to GDP may have reflected a widening of financial imbalances as the growth of money supply accelerated in response to accelerating credit growth.

In only a few cases was there strong early adjustment of money and credit policies, sustained through at least most of the period under review, that served to eliminate or reduce balance of payments pressure and to improve the inflationary environment. In many other cases, early restraint was not sustained as the growth of credit accelerated sharply in subsequent years to levels higher than during the period preceding the initiation of adjustment (e.g., Guyana, Jamaica, Kenya, Liberia, Peru, and Sri Lanka). Budgetary control proved a common problem, in some cases aggravated by the reversal of favorable terms of trade developments that had aided the initial adjustment effort.

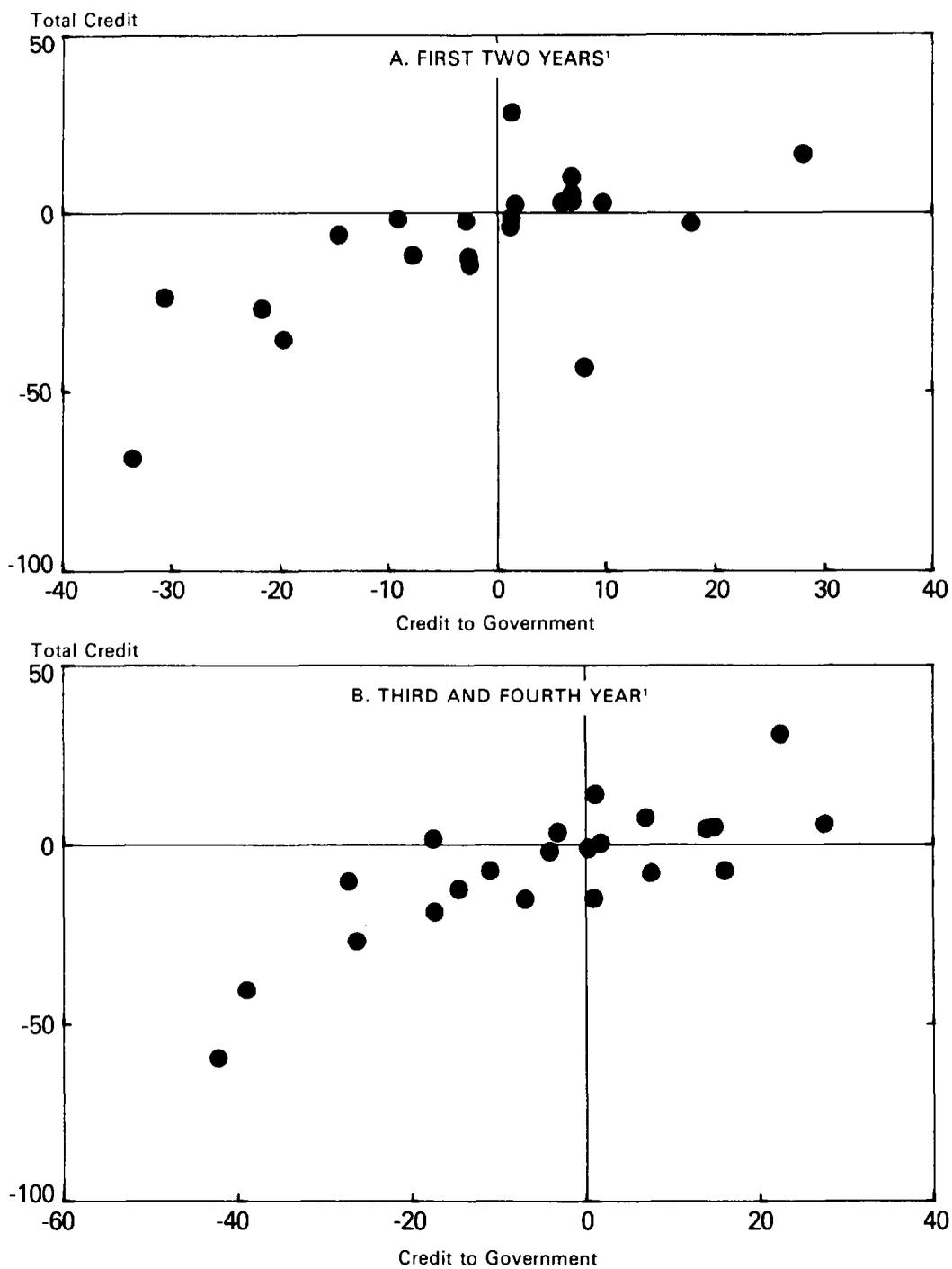
For the remainder of the sample, even early efforts at reducing the growth of credit were limited. In some cases it was intended that credit growth be adjusted relatively gradually in order to lessen the short-term contractionary impact of adjustment (e.g., Egypt and Senegal). In other cases, exchange rate guarantees given earlier significantly increased the difficulty of strengthening money and credit policies as the exercise of these guarantees resulted in an unexpected large expansion of liquidity (e.g., Bolivia).

4. Exchange rate policy

A wide variety of exchange rate actions or changes in exchange rate policies have been introduced by the countries in the sample during the period since 1977. In many instances exchange arrangements were modified at the time the exchange rate was changed, usually leading to a significant change in the policy itself. In a number of countries the exchange arrangement underwent several modifications throughout the period.

^{1/} This comparison, however, does not address the issue of whether the reduction of financial imbalances is temporary or sustainable since excess monetary expansion may arise from the growth of either domestic or foreign assets. A temporary reduction in the growth of domestic credit made possible by exceptional foreign borrowing or a temporary improvement in the external current balance would merely hide for a short period continuing financial imbalances.

CHART 6
 RATE OF INCREASE IN TOTAL CREDIT AND CREDIT TO
 GOVERNMENT FOLLOWING INITIATION OF ADJUSTMENT



¹Compared to two-year period preceding initiation of adjustment. Credit change expressed as percentage of initial money stock.



Four countries did not have an independent exchange rate policy and the same exchange arrangement was maintained throughout the period under review. Two of them, Gabon and Senegal, belong to the CFA franc area and use as legal tender the franc issued by the Bank of Central African States (BEAC) and the Central Bank of the West African States (BCEAO), respectively. The CFA franc issued by both banks has a fixed link to the French franc. Two other countries (Liberia and Panama) use the U.S. dollar as legal tender and the central banks in both countries issue only fractional coins that circulate along with U.S. notes at a fixed parity.

Exchange rate actions involving no significant change in exchange arrangements consisted mostly of a single discrete step depreciation, either from a single currency peg or from the SDR or a basket peg (13 instances involving 8 countries), a change in the basket of currencies and/or their weights (Mauritania 1977; Morocco 1980; Tanzania 1982; and Bangladesh 1983), and transfers of transactions between exchange markets in the case of dual or multiple rates. Significant transfers of transactions within an exchange arrangement were observed in Egypt (1977-79), Bangladesh (1982-83), and Sudan (1980-81, and accompanied by a large depreciation of the official rate in 1983).

Changes in exchange arrangements were introduced in a number of instances at the time of exchange rate actions. In ten countries a basket or a flexible exchange rate policy was adopted following a step depreciation from a single foreign currency or the SDR peg. Those that adopted a basket included Tanzania (1979) and Madagascar (1982), although Tanzania did not consistently observe the peg to its basket until a new basket was adopted in 1982. Mauritius adopted a reference basket in 1983 but the exchange rate was managed flexibly and Bangladesh adopted a reference basket in 1979, relative to which the taka was depreciated between late 1980 and mid-1983. After delinking from a single foreign currency peg or the SDR and following a step depreciation, four countries (Korea 1980; Costa Rica 1982; Kenya 1983; and Zambia 1983) adopted a generally flexible exchange rate policy; Pakistan depreciated gradually after 1981 following a long period with an unchanged rate fixed in terms of the U.S. dollar. Also Peru, after a five-month interruption in early 1978, resumed the crawling peg system, and preannouncement of one- and three-month exchange rate changes was adopted from early 1979 to mid-1980 and in late 1983 to early 1984.

Changes in exchange systems involving dual or multiple markets mostly took the form of legalizing a parallel market as a way to effect a gradual depreciation of the exchange rate or of advancing toward a general unification. Dual exchange markets were adopted at one time or another in six countries during the period under review. In three instances the new dual market rates remained pegged to a foreign currency (Jamaica 1977; and Costa Rica 1980) or to the SDR (Mauritius 1981), and in three other cases (Peru 1977; Bolivia 1982; and Jamaica 1983) one of the two rates was maintained free. Finally Turkey, after

adopting three rates for a short period in 1979, with one of them free, eliminated the free rate after depreciations of the other two official rates.

Progress toward unification was effected in most countries that adopted multiple rates during the period under review and in two countries with multiple rates in existence prior to 1977. Complete unifications were effected in Sri Lanka (1977), Jamaica (1978, 1983), Costa Rica (1983), Malawi (1982), Mauritius (1982), and Bolivia (1982). In the first three of these countries unification was followed by a flexible exchange rate policy although Jamaica, in the case of the 1978 unification, resumed the U.S. dollar peg after one year. Partial but significant progress toward unification also took place in Bangladesh (1982), Peru (1979), Sudan (1979, 1981), and Turkey (1980). Turkey followed a flexible exchange rate policy from early 1980 and completed unification before the end of 1982.

The wide variety of exchange rate actions described above resulted in a similar diversity of experiences as regards movements in nominal and real effective exchange rates. ^{1/} Changes in nominal effective exchange rates for the countries in the sample during the four-year period following the initiation of adjustment ranged from an appreciation of 7 percent per year in the case of Liberia to a depreciation of 30 percent per year in the case of Peru and Turkey (Appendix Table XVI). However, the extent to which such changes in nominal rates resulted in changes in relative prices reflected the strength of supporting financial policies. The real effective exchange rate for the typical country in the sample remained roughly unchanged during the four-year period following the initiation of adjustment measures (Table 11). This relative stability of average and median real effective exchange rates for all the countries in the sample, however, conceals a wide variety of experiences. Seven of the countries in the sample depreciated in real terms by 10 percent or more, on a cumulative basis, during the four-year period following the initiation of adjustment; five countries appreciated by 10 percent or more on a cumulative basis during the same period; and ten countries maintained their real effective exchange rate within 10 percent of the rate prevailing in the year preceding the initiation of adjustment. Several countries in this latter group followed policies resulting in alternating periods of real appreciation and depreciation with little or no net cumulative change, e.g., Mauritius and Pakistan, which first appreciated in real terms, most of the early appreciation being subsequently reversed.

^{1/} Information on the exchange rate policies followed under the adjustment programs supported by Fund arrangements was provided in previous review papers (see footnote on page 1).

Table 11. Annual Average Changes in Real Effective Exchange Rates Before and After Initiation of Adjustment ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with significant real depreciations ^{4/}								
Bangladesh	-6.5	-24.9	-5.9	-15.4	1.7	-4.9	-1.6	-1.6
Jamaica	7.1	10.4 ^{5/}	5.5	7.1	-13.2	4.1	-4.6	-2.8
Mauritania	2.1	-0.3	4.6	2.1	-8.4	12.0	1.8	2.7
Morocco	-0.1	-0.5	0.4	-0.1	0.6	-5.1	-2.3	-2.5
Peru	-2.8	5.5	-11.2	-2.8	-12.0	14.0	1.0	-0.4
Senegal	1.6	-4.7	-1.9	-3.3	-7.7	1.8	-3.0	-3.0
Sri Lanka	-8.9	-7.2	-10.6	-8.9	-14.7	10.0	-2.3	-0.4
Turkey	0.9	2.4	-3.0	-0.3	-9.9	-7.4	-8.7	-8.7
Zambia	0.1	-1.2 ^{5/}	0.7	0.1	-2.7	-2.3	-2.5	-0.4
Average	-0.7	-2.3	-2.4	-2.4	-7.4	2.5	-2.5	-1.9
Median	0.1	-0.5	-1.9	-0.3	-8.4	1.8	-2.3	-1.6
Countries with significant real appreciations ^{4/}								
Bolivia	6.6	-0.6	-1.3	-1.0	19.8	-1.4	9.2	9.2
Guyana	-2.7	-4.1	-1.2	-2.7	2.2	2.9	2.6	9.2
Liberia	-0.7	1.0	-5.5	-2.3	3.7	9.2	6.5	6.5
Madagascar	-0.9	-7.6	1.8	-2.9	7.9	3.7	5.8	5.8
Tanzania	1.6	1.8	1.4	1.6	3.3	25.2	14.3	13.5
Average	0.8	-1.9	-1.0	-1.4	7.4	7.9	7.7	8.8
Median	-0.6	-0.6	-1.2	-2.3	3.7	3.7	6.5	9.2
Others								
Costa Rica	1.6	1.4	0.4	0.9	-11.3	14.7	1.7	1.7
Gabon	6.5	7.7	5.3	6.5	0.7	-4.0	-1.6	-0.8
Kenya	2.2	1.0	3.3	2.2	-0.4	-2.1	-1.3	-0.9
Korea	3.2	4.5	3.6	4.1	-1.5	-1.1	-1.3	-1.3
Malawi	-0.7	-3.3	-0.2	-1.7	1.2	0.2	0.7	0.7
Mauritius	0.6	-0.1	-0.9	-0.2	1.2	-1.5	-0.2	-0.2
Pakistan	1.2	5.0	-6.5	-0.8	2.1	-2.0	0.1	0.1
Sudan	4.4	7.1	1.8	4.4	-2.1	0.7	-0.7	-3.6
Average	2.4	2.9	0.9	1.9	-1.3	0.6	-0.3	-0.5
Median	1.9	3.0	1.0	1.5	0.2	-1.3	-0.4	-0.5
All countries								
Average	0.8	-0.3	-0.9	-0.6	-1.8	3.0	0.6	1.0
Median	1.1	0.5	0.1	-0.3	0.1	0.4	-0.4	-0.4

Source: Information notice system.

^{1/} An increase represents an appreciation.

^{2/} Since 1973.

^{3/} Until 1983.

^{4/} Following the initiation of adjustment. Cases in which the real effective exchange rate depreciated or appreciated by at least 10 percent on a cumulative basis during the four years following the initiation of adjustment. Mauritania and Peru are also included in the first group. In the case of Peru, a large depreciation was introduced in the last quarter of 1977, immediately before the "initial" adjustment year, 1978. In the case of Mauritania, the real effective depreciation was reversed in the fourth year following the initiation of adjustment.

^{5/} One year only. In these cases the period before covers only three years.

Although other policies, in particular measures aimed at easing or removing supply constraints, can be expected to influence trade balances, the direct effect of exchange rate policy on the profitability and competitiveness of domestic tradables frequently makes a change in the exchange rate a key element of efforts aimed at increasing exports or reducing the excess demand for imports. The experience as regards the correspondence between changes in exchange rates and the performance of exports for the countries in the sample during the period following the initiation of adjustment is summarized in Table 12.

The typical country included in the sample experienced a very poor export volume performance, well below that of all non-oil developing countries as a group before the initiation of adjustment efforts. For countries following inadequate policies export performance remained weak, and some even experienced a further weakening of export performance during the four-year period following the initiation of adjustment. However, countries with exchange rate policies resulting in a significant depreciation of the real effective exchange rate ^{1/} generally experienced a strong recovery of exports both compared to the period preceding the initiation of adjustment and relative to the performance of all non-oil developing countries. The average and median export growth for this group was similar during the four-year period following the initiation of adjustment to the average growth in the volume of exports of all non-oil developing countries. Seven of the nine countries in this group experienced positive growth in the volume of exports during the four-year period following the initiation of adjustment. Only in two cases (Jamaica and Peru) did the volume of exports decline in the third and fourth year. In both cases, the earlier real depreciation was being reversed, at least in part, during this latter period. Zambia, which recorded negative export growth for the four-year period as a whole, experienced a strong recovery of exports during the third and fourth year. In part, this may have reflected the more gradual pace of real depreciation in the case of Zambia.

In contrast, all countries which appreciated in real terms by 10 percent or more during the period following the adoption of adjustment policies experienced a further deterioration in the performance of exports. Real effective exchange rates for countries in this group generally appreciated continuously during the period following the adoption of stabilization measures. ^{2/}

^{1/} Cases in which the real effective exchange rate depreciated by at least 10 percent on a cumulative basis during the four years following the initiation of adjustment. Mauritania and Peru are also included. In the case of Peru, a large depreciation was introduced in the last quarter of 1977, immediately before the "initial" adjustment year, 1978. In the case of Mauritania, the real effective depreciation was reversed in the fourth year following the initiation of adjustment.

^{2/} Except for Tanzania, which depreciated in real terms during the first year of the adjustment period, the depreciation, however, quickly being more than reversed.

Table 12. Growth of Export Volume Before and After Initiation of Adjustment

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with significant real depreciations <u>3/</u>								
Bangladesh	1.9	13.9	1.0	7.4	6.6	6.1	6.3	6.3
Jamaica	-7.3	12.2 <u>4/</u>	-17.0	-7.3	1.5	-6.8	-2.7	-5.0
Mauritania	-4.5	-5.7	-3.4	-4.5	-5.6	31.7	13.0	11.9
Morocco	-0.3	-13.7	13.2	-0.3	11.9	2.3	7.1	7.9
Peru	2.6	-5.5	10.7	2.6	22.4	-9.5	6.5	5.2
Senegal	3.8	7.4	-12.0	-2.3	-3.8	14.7	5.5	5.5
Sri Lanka	-1.5	3.3	-6.3	-1.5	3.7	0.9	2.3	1.8
Turkey	-0.3	6.6	3.3	5.0	39.8	18.7	29.2	29.2
Zambia	4.8	1.7 <u>4/</u>	6.3	4.8	-12.4	4.5	-3.9	-2.9
Average	-0.1	2.2	-0.5	0.4	7.1	6.9	7.0	6.6
Median	-0.3	3.3	1.0	-0.3	3.7	4.5	6.3	5.5
Countries with significant real appreciations <u>3/</u>								
Bolivia	-6.8	2.9	-14.7	-5.9	5.8	-9.2	-1.7	-1.7
Guyana	-0.7	9.3	-10.6	-0.7	-1.1	0.7	-0.2	-3.5
Liberia	-2.4	-1.7	10.1	4.2	1.6	-10.0	-4.2	-4.2
Madagascar	-2.2	-16.2	9.5	-3.4	-7.7	-5.8	-6.8	-6.8
Tanzania	-16.7	-9.8	-13.3	-11.5	-5.1	-6.5	-5.8	-7.2
Average	-5.8	-3.1	-3.8	-3.5	-1.3	-6.2	-3.7	-4.7
Median	-2.4	-1.7	-10.6	-3.4	-1.2	-6.5	-4.2	-4.2
Others								
Costa Rica	5.3	7.9	7.9	7.9	1.8	8.5	5.2	5.2
Cabon	10.5	11.4	9.6	10.5	-1.4	-11.1	-6.2	-3.8
Kenya	-3.9	-5.0	-2.1	-3.6	-4.7	-4.2	-4.4	-3.0
Korea	16.7	27.4	6.7	17.1	14.5	11.4	12.9	12.9
Malawi	7.4	9.2	11.7	10.5	-4.2	7.1	1.4	1.4
Mauritius	3.1	18.4	3.2	10.8	-8.8	11.5	1.4	1.4
Pakistan	8.6	-0.8	18.2	8.7	7.7	6.9	7.3	7.3
Sudan	-1.2	35.8	-13.0	11.4	2.4	-3.0	-0.3	3.0
Average	5.8	13.0	5.3	9.2	0.9	3.4	2.1	3.1
Median	6.4	10.3	7.3	10.5	0.2	7.0	1.4	2.2
All countries								
Average	0.8	5.0	0.9	2.7	3.0	2.7	2.8	2.8
Median	-0.3	5.0	3.3	3.4	1.6	1.6	1.4	1.6
Memorandum item:								
All non-oil developing countries	5.6	4.9	7.9	6.4	8.3	5.7	7.0	6.5

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.

2/ Until 1983.

3/ Following the initiation of adjustment. Cases in which the real effective exchange rate depreciated or appreciated by at least 10 percent on a cumulative basis during the four years following the initiation of adjustment. Mauritania and Peru are also included in the first group. In the case of Peru, a large depreciation was introduced in the last quarter of 1977 immediately before the "initial" adjustment year, 1978. In the case of Mauritania, the real effective depreciation was reversed in the fourth year following the initiation of adjustment.

4/ One year only. In these cases the period before covers only three years.

Other countries, those which neither depreciated nor appreciated significantly in real terms during the period of adjustment, generally experienced a relatively weak (although strengthening) export performance during the four-year period following the initiation of adjustment. Only Korea recorded rates of growth in the volume of exports well above the average of non-oil developing countries. A highly elastic response of exports to changes in relative prices in the case of Korea may have resulted in a stronger than average growth in the volume of exports following the reversal of the earlier real appreciation during the first year of the adjustment period.

5. Supply policies

The experience of the countries under review in eliminating or alleviating supply constraints has been mixed and in some cases considerably less than satisfactory. Delays in formulating and implementing corrective policies have frequently occurred, reflecting late recognition of the source and importance of the problem, the complexity of many of the issues involved, or administrative and other problems in initiating the necessary policy action. In addition, the entrenched nature of the problems sometimes resulted in long lags between the implementation of appropriate policies and the realization of their full impact on the allocation of resources. There have also been some instances in which the policy measures that were adopted proved to be inadequate or insufficiently strong to redress the structural problems they were intended to correct. In most cases, nevertheless, some progress was achieved.

In addition to exchange rate action, efforts to reduce the adverse allocative effects of distorted prices frequently included the reduction or elimination of subsidies or price controls and the reduction of high taxes or tariff rates. At least some aspect of domestic pricing or tax/tariff policies was considered to constitute a serious problem in 24 of the 25 cases under review at the time adjustment efforts were initiated. However, while related problems were often considered to constitute serious impediments to growth and were recognized early during the adjustment period, only in relatively few cases were the needed policy changes implemented early. Subsequent actions in this area, however, contributed to a significant reduction of the severity of related problems. The severity of the problem was alleviated, at least to some extent, in at least two thirds of the cases, although progress in this area frequently was gradual.

In several cases, such price reforms and other reform measures aimed at improving their efficiency resulted in a sharply improved performance of state enterprises. Corrective price adjustments for a wide range of goods and services provided by state enterprises and reform measures aimed at improving management, reducing overstaffing, and rationalizing investment contributed to an improved financial performance of state enterprises in Turkey. The role of state enterprises or official marketing agencies was sharply reduced in a few cases (e.g.,

Senegal and Sri Lanka) while in other cases significant improvements in the financial performance of state enterprises were achieved primarily as a result of price reforms (e.g., Costa Rica, Malawi, and Morocco). Nevertheless, although progress was achieved in several cases where public enterprises had earlier been a major source of difficulty, the gains in this area frequently remain quite fragile in other cases and it is not yet clear whether, or how long, they will be sustained. The implementation of corrective measures in this area was often both weak and delayed.

Significant efforts to liberalize and simplify the exchange and trade system were made in several of the countries under review, at times with striking results for economic growth owing to the increased availability of imported inputs (e.g., Korea, Peru, 1/ and Sri Lanka). Sri Lanka implemented a radical liberalization of the exchange and trade system in 1977-78, when the dual exchange rate system was unified, followed by the maintenance of more flexible exchange rate management. Peru abolished its import exchange budget in 1977 and in 1979-80 virtually eliminated quantitative import restrictions. Both Peru and Sri Lanka concurrently introduced new custom tariff systems with substantial reductions in the rate of effective protection. Korea initiated a major import liberalization program in 1978 and a major simplification of the exchange regime in early 1979. Following the adoption of a flexible exchange rate policy in 1980, both the exchange and trade systems were liberalized further in 1981-83. Similar steps toward easing import restrictions were introduced in several countries (e.g., Morocco, Pakistan, and Turkey) also generally concurrently with a reform of the exchange system or the adoption of a more flexible exchange rate policy. These efforts, however, were not always sustained, some or all of the gains from liberalization being subsequently offset by a reversal of policies (e.g., Peru 1984).

Progress in removing structural constraints resulting from a weak productive base of the economy and a low growth potential has been slow and difficult in many cases. The long and concentrated effort that is necessary to alleviate problems associated with a lack of diversification or an inadequate infrastructure is under way in a number of countries, but it is too early to judge whether it will be successful. Designing the required policies was often difficult, necessitating extensive technical work at the microeconomic level. In several cases, a substantial easing of existing constraints required major policy changes that involved difficult political decisions. Although the need for such changes if substantial progress was to be achieved may have been recognized early, implementation was frequently delayed. For example, progress on the restructuring of financial relationships and incentives in agriculture in the case of Sudan--a crucial element of all programs--was very slow, as was progress in maintaining the capital stock of the productive sectors and in improving project supervision

1/ After 1980.

and management. In the case of Zambia, all annual programs have included provisions aimed at promoting growth through expansion of the productive base, especially agriculture. However, little or no significant results were achieved, in part because progress was slow in removing distortions in the cost-price structure. In some other cases, the necessary changes in policies have not yet been initiated.

Structural problems affecting the level and composition of saving and investment have been alleviated to some degree in several cases, but considerable further adjustment of policies in this area is necessary in most of the countries under review. A reformulation of the public investment program was undertaken in several cases (e.g., Korea and Malawi), often with the assistance of the IBRD, but elimination or curtailment of less productive projects often proved to be difficult. The recognition that a significant part of domestic investment had low productivity frequently came only late, delaying the needed reorientation of policies. Legislation and incentives affecting private investment were also revised in some cases, sometimes with strong positive results in terms of both the magnitude and structure of private investment (e.g., Sri Lanka). The level of saving remained inadequate in many of the countries under review, including some of those in which financial reforms were undertaken.

V. Arrangements for the Use of Fund Resources

During the period 1977-1980, 44 arrangements for use of Fund resources in the upper credit tranches by countries in the sample were approved, of which 12 were extended arrangements and 17 were multiyear stand-by arrangements (Table 13). The sample covers 50 economic and financial programs, equivalent to 60 percent of the total number of programs presented to the Fund during the same period. Total cumulative drawings under these arrangements amounted to SDR 4.8 billion.

The monitoring of developments under these arrangements relied for the most part on the usual performance criteria (Table 14). Arrangements with all of the countries in the sample except two (Liberia and Panama) made purchases dependent on performance criteria relating to total credit extended by the central bank or the banking system. Neither Liberia nor Panama in which U.S. currency is used freely for domestic settlements independently control the availability of credit through the operations of the central bank or the banking system. Subceilings on credit to the government or public sector from the central bank or banking system were included in all arrangements. ^{1/} Other subceilings included limits on the deficit of the public sector or credit to certain segments of the public or private sectors (e.g., credit to mining companies in Zambia, and credit for cotton financing¹ and to price adjustment funds in Egypt).

^{1/} The two-year stand-by arrangement for the Philippines approved in 1980 did not include a fiscal subceiling during the second year.

Table 13. Upper Credit Tranche Stand-By and Extended Arrangements Approved in 1977-1983 for Countries in the Sample

	1977	1978	1979	1980	1981	1982	1983
Bangladesh			SBA	EFF			SBA
Bolivia				SBA			
Costa Rica				SBA <u>1/</u>	EFF	SBA	
Egypt	SBA	EFF					
Gabon		SBA		EFF	* <u>2/</u>	*	
Guyana		SBA	EFF	EFF			
Jamaica	SBA	EFF	EFF		EFF	*	*
Kenya			SBA <u>1/</u>	SBA <u>1/</u>		*	SBA <u>1/</u>
Korea				SBA <u>1/</u>	*		SBA <u>1/</u>
Liberia				SBA <u>1/</u>	SBA	SBA	SBA
Madagascar				SBA <u>1/</u>	SBA	SBA	SBA
Malawi			SBA <u>1/</u>	SBA <u>1/</u>	*	SBA	EFF
Mauritania				SBA <u>1/</u>	SBA		
Mauritius			SBA <u>1/</u>	SBA	SBA		SBA
Morocco				EFF	EFF	SBA	SBA <u>1/</u>
Pakistan	SBA			EFF	EFF	*	
Panama		SBA	SBA	SBA <u>1/</u>	*	SBA	SBA <u>1/</u>
Peru	SBA	SBA <u>1/</u>	SBA	*		EFF	*
Philippines	*	*	SBA	SBA <u>1/</u>	*		SBA
Senegal				EFF	SBA	SBA	SBA
Sri Lanka	SBA		EFF	*	*		SBA
Sudan			EFF	*		SBA	SBA
Tanzania				SBA <u>1/</u>			
Turkey		SBA <u>1/</u>	SBA	SBA <u>1/</u>	*	*	SBA
Zambia		SBA <u>1/</u>	*		EFF		SBA

Source: Staff reports.

1/ Intended duration of at least 18 months.

2/ An asterisk indicates an economic and financial program approved under existing arrangement.

Table 14. Performance Criteria in Upper Credit Tranche Stand-By and Extended Arrangements with Sample Countries Approved in 1977-1980 1/

	Credit <u>2/</u>		Exchange Rate	BOP Test	External Debt		Restrictions <u>4/</u>	Review <u>5/</u>
	Total	Sub-Ceiling <u>3/</u>			Public	Including guaranteed		
Bangladesh	BS	BS				*	*	80 <u>6/</u>
Bolivia	CB	BS		*		* <u>7/</u>	*	
Costa Rica	CB	CB				*	*	
Egypt	BS	BS <u>8/</u>	*		77 <u>9/</u>	78 <u>9/</u>	* <u>10/11/</u>	78
Gabon	BS	BS <u>12/</u>				*	* <u>10/</u>	78
Guyana	CB	BS <u>13/</u>				78-79	* <u>10/14/</u>	
Jamaica	CB	BS		*		*	* <u>10/</u>	78-79 <u>6/</u>
Kenya	CB/BS	BS			*		*	79 <u>6/15/</u>
Korea	BS	BS				*	*	*
Liberia		BS				*	*	
Madagascar	CB	CB				*	* <u>10/</u>	* <u>6/</u>
Malawi	CB/BS	CB/BS <u>16/</u>				*	*	* <u>6/</u>
Mauritania	BS	BS <u>16/</u>				*	*	* <u>6/</u>
Mauritius	BS	BS				*	*	80
Morocco	BS	BS				*	*	*
Pakistan	BS	BS				*	* <u>17/</u>	
Panama	78 <u>18/</u>	CB <u>16/</u>				79-80	*	78
Peru <u>19/</u>	BS/CB	BS		*		*	* <u>20/</u>	
Philippines	BS	BS		80		*	*	
Senegal	BS	BS				*	*	*
Sri Lanka	BS	BS		77	*	*	*	*
Sudan	BS	BS				*	* <u>10/11/</u>	
Tanzania	BS	BS				*	* <u>10/</u>	
Turkey	CB	CB <u>21/</u>	80			*	* <u>10/</u>	* <u>6/</u>
Zambia	BS	BS <u>22/</u>				*	* <u>10/</u>	

Source: Staff reports.

1/ An asterisk denotes that the criterion was specified in all arrangements. Otherwise the year(s) in which the criterion was specified is shown.

2/ Banking system (BS) or central bank (CB). The two notations are used when the coverage differed between arrangements.

3/ Credit to government or to public sector, unless otherwise specified.

4/ Standard clause, unless otherwise specified.

5/ Not including reviews for subsequent years of multiyear programs.

6/ For the purpose of reviewing, or including a review of, exchange rate policy. For Malawi, in 1980 only, and for Turkey, in 1979 only.

7/ Also external borrowing of banking system.

8/ Also cotton financing and price adjustment funds in 1977.

9/ Including use of correspondent bank facilities.

10/ Also arrears ceiling.

11/ Also elimination of a bilateral payments arrangement.

12/ Also arrears of the government.

13/ Including credit to public sector from private foreign banks in 1980.

14/ Also, in 1978, rescind prohibition of transfers of depreciation allowances; and in 1980, ceiling on gross reserves to ensure reduction of arrears.

15/ Including agreement to remove advance import deposit requirement.

16/ Also government/public sector deficit. For Malawi, in 1980 only.

17/ Also specified import liberalization measures.

18/ Net credit of National Bank to private sector.

19/ Also, in 1977, increase in price of regular gasoline.

20/ Also automatic import licensing and easing of minimum financing requirements.

21/ Also reserve requirements.

22/ Also credit to mining companies.

Other performance criteria used generally related to the contracting or disbursement of external debt, typically including debt guaranteed by the public sector and also in a few cases foreign borrowing by commercial banks, and the standard clause on the use of exchange and trade restrictions during the period of arrangements. Other performance criteria relating to the restrictive system included, where appropriate, ceilings on arrears and specific liberalization measures (e.g., the elimination of a bilateral payments arrangement in the case of Egypt and Sudan; and measures to liberalize imports in the case of Pakistan).

In some cases, specific undertakings concerning exchange rate policy were made performance criteria while, in other cases, net foreign assets (or balance of payments) tests were used to trigger or accelerate agreed exchange rate actions. Midterm reviews were specified as performance criteria in one or more arrangements for more than half of the countries in the sample during the period 1977-1980, frequently with an explicit reference to the need for a review of exchange rate policy.

Failures to meet specified performance (including the completion of yearly reviews under multiyear arrangements) led to interruptions of drawing rights in most cases: all countries in the sample except two (Gabon and Korea) experienced at least one interruption during the period 1977-1980. ^{1/} Typically, such interruptions resulted from more than one performance criterion being breached simultaneously. In most cases, however, purchases were subsequently resumed either under the same arrangement or under a new arrangement. The breaching of ceilings on total credit or credit to the government and the failure to complete midterm or yearly reviews were the most frequent reasons for interruptions.

VI. Performance Relative to Adjustment Objectives

The different nature and severity of problems facing individual countries was reflected in the diversity of adjustment objectives pursued by these countries. Typically, however, the list of such objectives included the elimination or reduction of domestic and external imbalances as reflected, respectively, in inflation and external payments deficits, while preserving or re-establishing a basis for satisfactory growth. ^{2/}

Performance relative to these objectives varied widely in the countries under review. In particular, many of the countries included in the review in recent years still experienced both relatively high

^{1/} A detailed review of the reasons for and length of interruptions for the 25 countries in the sample during the period since 1977 is presented in Appendix D.

^{2/} Other frequent objectives related to employment and income distribution. Available information, however, does not allow an analysis of achievement in these areas.

inflation and external payments deficits. ^{1/} Other countries had achieved or maintained either a low rate of inflation or balance of payments deficit, but only a few of the countries under review have achieved in recent years both relatively low inflation and external payments deficits. This latter group includes both cases of substantial adjustment of earlier imbalances and cases where the relatively favorable performance of recent years reflects primarily the influence of fortuitous external circumstances.

1. External payments deficits

More than half of the countries in the sample achieved lower external current account deficits during the period following the initiation of adjustment efforts. The extent to which such reductions were either sufficient or sustainable, however, differed widely. The amount of adjustment of the external current account remaining to be accomplished in 1983 was relatively small for eight of the countries in the sample. Typically, these countries achieved a substantial reduction of their external current deficits during the period of adjustment: external current deficits for countries in this group were equivalent, on average, to 3 percent of GDP or 15 percent of exports of goods and services in the third and fourth year following the initiation of adjustment compared to, respectively, 7 percent of GDP or 37 percent of exports of goods and services during the period immediately preceding the adoption of adjustment policies (Table 15, and Appendix Tables XVII and XIX). ^{2/} A similar pattern of adjustment is apparent for these countries in the evolution of the trade balance in constant prices which improved by the equivalent of 5 percent of real GDP during the period following the initiation of adjustment.

^{1/} For the purpose of this classification, an average rate of inflation of 11 percent in 1982-83 (the median for all non-oil developing countries) was used as the demarcation line between low and high inflation. Major industrial countries experienced rates of inflation, on average, of 6 percent during this period. The relatively high rates of inflation experienced by certain countries in the sample in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years. Countries which experienced external current deficits in 1983 more than the equivalent of 5 percent of GDP larger than the deficits judged to be sustainable over the medium term were classified as still experiencing large payments imbalances.

^{2/} Changes in external current deficits relative to GDP may be significantly affected by changes in real effective exchange rates, a large real appreciation possibly resulting in a lower external current deficit relative to GDP despite a widening imbalance. For this reason, two alternative measures of changes in external current balances are used as complements to changes in ratios to GDP: the external current balance relative to exports of goods and services and the trade balance in constant prices relative to real GDP.

Table 15. External Current Deficits Relative to GDP and Exports of Goods and Services 1/

	All	Four Years Before			Four Years After			All
	Years	First	Second	Total	First	Second	Total	Years
	Before	half	half	Total	half	half	Total	After
	<u>2/</u>							<u>3/</u>
(In percent)								
A. Countries with small external current deficits								
1. Countries with low inflation								
Current deficit/GDP	-5.3	-4.7	-7.4	-6.0	-8.2	-3.3	-5.7	-5.7
Current deficit/ current receipts	-28.1	-24.2	-29.2	-26.7	-28.5	-12.8	-20.7	-20.7
Real trade balance/ real GDP	-3.4	-3.1	-5.5	-4.3	-1.9	2.1	0.1	0.1
2. Countries with high inflation								
Current deficit/GDP	-6.2	-5.5	-6.8	-6.2	-3.4	-3.0	-3.2	-3.5
Current deficit/ current receipts	-40.7	-50.9	-42.2	-46.6	-25.0	-16.3	-20.6	-21.7
Real trade balance/ real GDP	2.1	1.8	1.3	1.5	7.5	5.0	6.2	5.7
B. Countries with large external current deficits								
1. Countries with low inflation								
Current deficit/GDP	-11.2	-9.5	-16.6	-13.0	-13.8	-16.5	-15.1	-16.2
Current deficit/ current receipts	-51.8	-45.2	-66.7	-55.9	-59.2	-63.6	-61.3	-63.3
Real trade balance/ real GDP	-2.5	-1.0	-8.8	-4.9	-7.2	-7.0	-7.1	-7.4
2. Countries with high inflation								
Current deficit/GDP	-9.2	-5.3	-13.9	-9.6	-12.8	-11.4	-12.1	-13.0
Current deficit/ current receipts	-34.9	-23.7	-53.7	-38.7	-60.0	-56.3	-58.1	-60.0
Real trade balance/ real GDP	-4.1	-3.3	-5.9	-4.6	-1.3	3.1	0.9	1.2

Sources: Appendix Tables XVI, XVIII, XIX.

- 1/ Averages.
2/ Since 1973.
3/ Until 1983.

In contrast, those countries in the sample which still had large external current deficits in 1983 typically experienced either relatively stable or a further widening of such deficits during the period following the initiation of adjustment efforts. Both the average and median external current deficits for countries in this group remained equivalent to 10-15 percent of GDP or 50-60 percent of total receipts from exports of goods and services, during the period following the initiation of adjustment efforts. The average external current deficit of all non-oil developing countries also remained relatively stable during the same period, at a level, however, only about one third that of countries in the sample which continued experiencing large external imbalances.

In assessing developments in the external payments balance during the period following the initiation of adjustment, two points should be noted. First, although individual circumstances differed, countries that were not successful in achieving sufficient reductions of their external current account deficits were not typically subject throughout the period to significantly more unfavorable exogenous influences. The available information suggests that the impact of temporary unfavorable developments in non-oil terms of trade, foreign demand or other factors such as droughts and wars, was equivalent on average to only about 1-2 percent of the value of exports of goods and services during the four-year period following the initiation of adjustment efforts (Table 16). The most significant exogenous influences during the period under review were the increase in oil prices and higher interest rates on international financial markets. ^{1/} Deficits in respect of net oil imports and investment income payments increased, on average, by the equivalent of about 10 percent of exports of goods and services during the first two years following the initiation of adjustment both for those countries that did and for those countries that did not achieve a significant reduction of external current deficits although related deficits were substantially larger for the latter group of countries in subsequent years.

Second, those countries in the sample which did not reduce or maintain their external current deficits to levels close to those considered sustainable typically had experienced a sharp widening of underlying deficits during the period immediately preceding the adoption of adjustment measures. Excluding payments deficits reflecting temporary disturbances, oil imports and investment income payments, these countries, on average, gradually achieved a reversal of the earlier widening of the external current deficit following the initiation of adjustment: the "residual" external current deficit for these countries in the third and fourth year of the adjustment period was equivalent to

^{1/} Sharply reduced capital flows in recent years occurred either after or late during the period of adjustment under review for most countries in the sample and thus did not, at least on average, play a significant role.

Table 16. Ratios of External Current Balances and Components to Exports of Goods and Services 1/

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with small external current deficits								
Current deficit <u>4/</u>	-33.1	-39.9	-33.4	-36.7	-26.9	-15.5	-21.2	-22.0
Of which:								
Oil imports (net)	-6.5	-7.2	-8.5	-7.9	-16.1	-8.6	-12.3	-11.6
Investment income (net)	-9.9	-9.7	-12.1	-10.9	-14.6	-13.9	-14.3	-14.4
Subtotal	-16.4	-16.9	-20.6	-18.8	-30.7	-22.5	-26.6	-26.0
Non-oil terms of trade	0.9	-0.9	4.2	1.7	-0.4	-1.6	-1.0	-1.0
Cyclical export short-falls	-0.1	-0.6	0.9	0.1	2.5	-0.7	0.9	0.3
Other disruptions	-0.3	-1.1	--	-0.6	-1.6	-0.3	-1.0	-1.0
Subtotal	0.5	-2.6	5.1	1.2	0.5	-2.6	-1.1	-1.7
Residual	-17.2	-20.4	-17.9	-19.1	3.2	9.5	6.4	5.7
Countries with large external current deficits								
Current deficit	-41.7	-32.3	-58.9	-45.6	-59.7	-59.2	-59.5	-61.3
Of which:								
Oil imports (net)	-10.8	-11.2	-14.1	-12.7	-20.6	-26.2	-23.4	-25.1
Investment income (net)	-8.7	-7.6	-10.4	-9.0	-13.0	-17.6	-15.3	-15.9
Subtotal	-19.5	-18.8	-24.5	-21.7	-33.6	-43.8	-38.7	-41.0
Non-oil terms of trade	1.6	1.9	5.2	3.5	-0.1	--	-0.1	-1.2
Cyclical export short-falls	-0.1	-0.6	1.4	0.4	2.4	-1.1	0.6	0.1
Other disruptions	-0.9	-0.1	-2.0	-1.0	-3.2	-2.0	-2.6	-2.5
Subtotal	0.6	1.2	4.6	2.9	-0.9	-3.1	-2.1	-3.6
Residual	-22.7	-14.7	-38.8	-26.7	-25.1	-12.2	-18.7	-16.8

Sources: Appendix Tables XVII, XVIII; and Appendix E.

- 1/ Averages.
2/ Since 1973.
3/ Until 1983.
4/ Excludes Egypt.

12 percent of receipts from exports of goods and services compared to 15 percent in the third and fourth year preceding the initiation of adjustment. The unfavorable external developments which had intervened, however, had made this effort clearly insufficient. Moreover, in many of these countries, this reduction of the deficit had taken the form of sharply reduced import volumes following the introduction or intensification of exchange or trade restrictions, further weakening capacities for production and exports.

2. Inflation and growth

The performance in recent years of countries in the sample as regards inflation was also mixed. Nine countries experienced rates of consumer price increase of 11 percent or less in 1982-83 while rates of inflation for other countries in the sample ranged up to 200 percent in the case of Bolivia (Table 17 and Appendix Table I). Frequently, countries which had achieved lower rates of inflation in 1982-83 first had experienced an acceleration of inflation either immediately before or in the early stages of the adjustment period but were successful in subsequently reducing such higher rates of inflation. In many cases, the acceleration of inflation in the early stages of the adjustment period reflected corrective price adjustments in response to changes in exchange rates or in certain prices subject to controls. Accordingly, GDP deflators, which are typically not affected as much by such corrective price changes, increased somewhat less during the same period. In contrast, those countries in the sample with high rates of inflation in 1982-83 frequently experienced an acceleration of inflation (measured both by consumer prices and GDP deflators) throughout the period following the adoption of adjustment policies.

In the longer run, the adoption of adjustment measures can be expected to have a positive effect on growth, even though rates of growth may have to remain somewhat lower than the high and unsustainable levels prevailing in certain cases before the initiation of adjustment. In the short run, the effect on growth may be either positive or negative depending on the relative weight and speed of responses to demand-management and structural policies aimed at fostering a more efficient allocation of resources. Insofar as the latter influence the economy only over the medium term--given the response lags--while the impact of demand-management policies is more immediate, a reduction in growth could be experienced early during the adjustment period, followed by a recovery, provided policies are sustained.

The initiation of adjustment efforts in the countries under review typically was accompanied by a sharp reduction in the rate of growth of economic activity. Although the growth performance of non-oil developing countries generally weakened during the same period, the fall in rates of growth of GDP was much sharper in the case of countries initiating

Table 17. Inflation and Growth Performance ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
A. Countries with small external current deficits								
1. Countries with low inflation								
Consumer prices	15.1	11.3	12.2	11.7	21.5	6.8	14.1	14.1
GDP deflator	17.5	9.7	8.0	8.8	9.8	7.7	8.8	8.8
Real GDP	7.3	9.6	6.8	8.2	2.2	5.7	3.9	3.9
2. Countries with high inflation								
Consumer prices	20.7	17.7	26.2	21.9	33.6	27.8	30.7	33.3
GDP deflator	22.6	21.8	25.8	23.6	34.8	27.0	30.9	31.8
Real GDP	7.8	6.5	7.3	7.6	0.3	4.7	2.5	2.2
B. Countries with large external current deficits								
1. Countries with low inflation								
Consumer prices	13.9	13.6	11.2	12.1	13.4	16.7	14.8	12.8
GDP deflator	14.8	11.4	11.1	10.8	10.4	11.2	10.8	9.9
Real GDP	3.9	4.8	3.5	4.0	1.8	1.2	1.5	1.6
2. Countries with high inflation								
Consumer prices	13.2	8.3	11.5	10.0	22.0	43.8	32.9	33.8
GDP deflator	12.1	12.6	7.9	10.0	18.2	44.7	31.4	31.2
Real GDP	4.8	5.9	3.4	4.6	-1.1	0.4	-0.4	-0.7

Sources: Appendix Tables I and II.

- ^{1/} Averages.
^{2/} Since 1973.
^{3/} Until 1983.

adjustment efforts, many of which had already experienced a slowing of growth in preceding years (Table 17, Appendix Table II). ^{1/} However, individual experiences as well as the experience across broad groups of countries differed widely in subsequent years. Countries that were successful in maintaining or re-establishing a relatively small external payments deficit achieved a strong recovery of growth in the later stages of the adjustment period. Rates of growth in these countries during the third and fourth year following the initiation of adjustment efforts typically exceeded the average and median rates of growth for all non-oil developing countries. The relatively strong increase of exports for countries in this group made the recovery of growth possible without substantially weakening the earlier improvement of the external payments position. For the majority of other countries in the sample, however, growth performance remained relatively weak throughout the period following the initiation of adjustment.

3. Relation to strength and continued implementation of policies

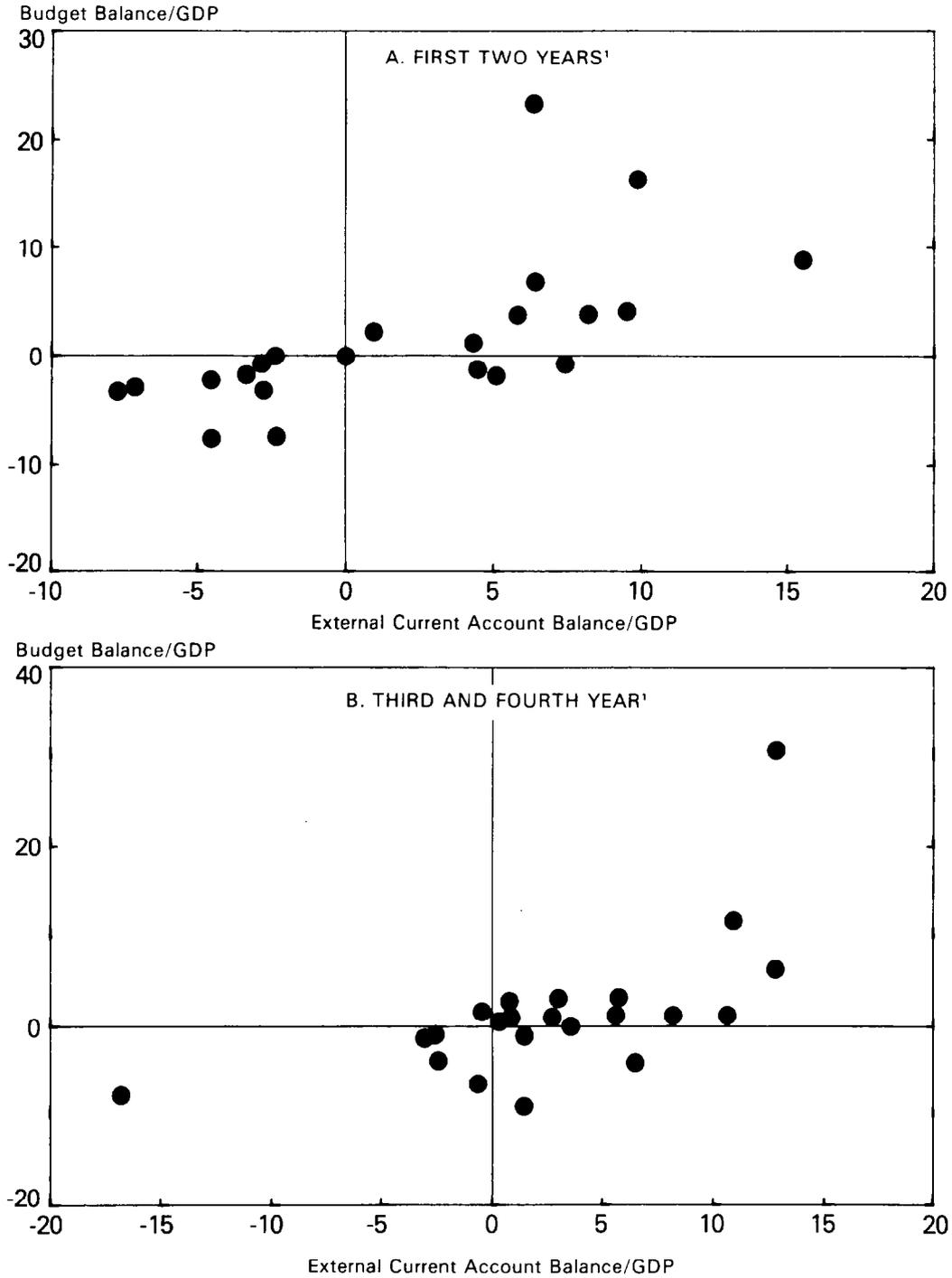
Success or lack of success of a country's adjustment efforts clearly depend on the adequacy and strength of the policies adopted and the manner in which they are implemented. In that respect, and although circumstances differ widely as between individual countries, several broad conclusions can be derived from the general examination of developments and policies as presented in preceding sections.

First, countries that achieved a significant reduction of domestic or external imbalances typically did so by addressing the source of the imbalance. Fiscal deficits had been a main source of emerging or widening imbalances in the majority of cases. Typically, countries which did not achieve a sufficient reduction of their external current deficits following the initiation of adjustment efforts continued to experience large or widening fiscal deficits during this period (Chart 7). While saving/investment balances of the nongovernment sector strengthened in all four groups of countries following the initiation of adjustment efforts, only in those countries which subsequently achieved both low inflation and payments deficits had a widening saving gap in the private sector been the main contributor to the emergence of initial imbalances. For these countries, measures aimed at strengthening the saving/investment balance of the nongovernment sector addressed the source of the problem rather than attempted to compensate for a lesser adjustment in the government sector. Typically, countries which achieved lower fiscal deficits did so from the outset of the adjustment period (Chart 8).

^{1/} In contrast, two earlier studies have found no significant effect on growth. Donal J. Donovan, "Macroeconomic Performance and Adjustment Under Fund-Supported Programs: The Experience of the Seventies," Staff Papers, Vol. 29, No. 2, June 1982; and T. Gylfason, "Credit Policy and Economic Growth in Developing Countries: An Evaluation of Stand-By Programs, 1977-79," (mimeo) Institute of International Economic Studies, University of Stockholm, July 1982.

CHART 7

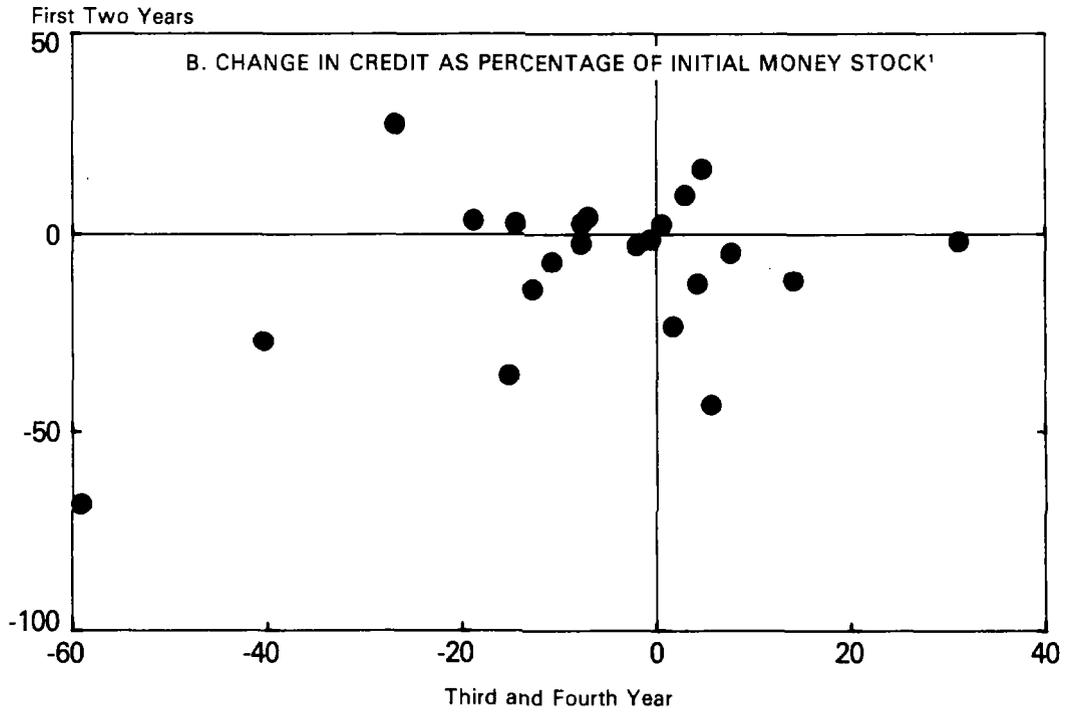
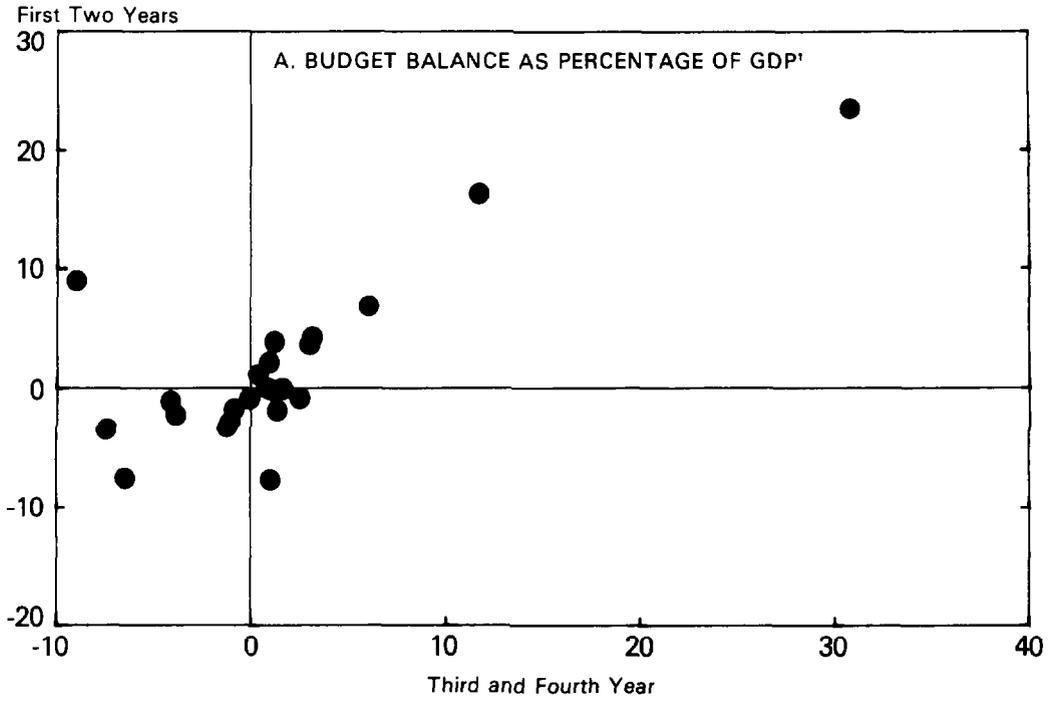
CHANGE IN RATIOS TO GDP OF BUDGET BALANCE AND EXTERNAL CURRENT ACCOUNT BALANCE FOLLOWING INITIATION OF ADJUSTMENT



¹Compared to two year period preceding initiation of adjustment.



CHART 8 TIMING AND SUSTAINED CHARACTERISTICS OF ADJUSTMENT OF FISCAL AND MONETARY POLICIES



¹ Compared to two-year period preceding initiation of adjustment.



Second, while the appropriate combination of policies clearly depends on the circumstances of each case, policy adjustments typically were both stronger and more broadly based in the case of countries that achieved a larger reduction of external current imbalances. For example, the only two countries in the sample that simultaneously introduced large exchange rate actions, reduced their budget deficit, reduced the rate of increase of credit relative to GDP, and took effective action easing significant structural constraints (Peru and Turkey) during the period under review did achieve lower external current deficits. Two other countries in the group with external current deficits in recent years close to the level considered sustainable in their circumstances (Gabon and Pakistan) achieved a larger than average tightening of both fiscal and monetary policy while achieving progress in at least some areas considered to have constituted severe structural problems prior to the initiation of adjustment efforts. The latter was also the case for Kenya, Korea, and Mauritius.

Only in relatively few of the other cases were significant steps taken simultaneously in more than one area of policy. For example, of the seven countries which depreciated their currency in real terms by 10 percent or more but did not achieve sufficient reductions of their external current deficits, three allowed at the same time for an acceleration in the rate of growth of domestic credit (all of which also experienced a larger fiscal deficit relative to GDP). The failure to introduce or maintain an appropriate mix of policies resulted in severe difficulties in certain cases where emphasis on sharply increased investment spending (e.g., Guyana, Madagascar, and Sri Lanka) not accompanied by adequate fiscal or monetary restraint resulted in the buildup of excessive demand pressures.

Third, the large size of initial imbalances and the adoption in many cases of early steps which amounted at best to a tentative beginning required that adjustment measures be sustained over an extended period. Clearly, however, early hopes of a smoother adjustment process by stretching out the pace of implementation of policies frequently did not materialize, in some cases even some early measures being subsequently reversed either in response to social or political pressures or when temporary improvements in external circumstances eased balance of payments pressures.

VII. Summary and Conclusions

Relatively few of the countries in the sample have achieved sustainable domestic and external positions. Many still experience at present large domestic or external imbalances and some of these countries have made virtually uninterrupted use of Fund resources since the initiation of adjustment efforts. ^{1/} In a few cases, even though

^{1/} The experience as regards prolonged periods of use of Fund resources was reviewed in "Prolonged Use of Fund Resources," (SM/84/71, 4/27/84).

imbalances are not at present apparent in key macroeconomic indicators, maintenance of the current stance of policies is likely to result in the emergence of such imbalances over the medium term. These developments raise several issues concerning program design, the effectiveness of individual and the mix of policies, and the sustainability of policies. These issues are examined in the companion paper "Review of Upper Credit Tranche Arrangements and Some Conditionality Issues," (EBS/84/227, 11/7/84).

The main points that have been dealt with in preceding sections may be summarized as follows.

1. Most of the countries in the sample experienced large or growing domestic and external imbalances during the period preceding the initiation of adjustment, as reflected in particular in widening external current deficits and, for several countries, in a sharp acceleration of inflation. Another typical development during the same period for these countries was a slowdown of growth.
2. While individual circumstances differed and although external factors contributed to the size of existing domestic and external imbalances, the widening of these imbalances during the period immediately preceding the initiation of adjustment reflected primarily domestic factors. Large or growing fiscal imbalances and overvalued exchange rates clearly were a major source of difficulties in a wide majority of countries in the sample. Increase in spending was the main factor responsible for the growing fiscal disequilibrium.
3. Reflecting the key role of widening budget deficits in the emergence of initial imbalances, the achievement of sustained reductions in these deficits was frequently a prerequisite for successful adjustment. The pattern of fiscal adjustment in the countries reviewed suggests the following observations. First, in most cases, countries which were able to achieve a reduction of the fiscal deficit during the four-year adjustment period reviewed took significant steps to this end early following the initiation of adjustment efforts. Second, as regards the sustainability of fiscal adjustment measures, reductions in capital spending were best sustained through the entire adjustment period, followed by efforts to increase revenue and reductions in current spending.
4. In many cases, overvalued currencies or complex exchange rate systems had contributed significantly to the size of existing imbalances. Countries which did follow exchange rate policies resulting in a significant improvement in the competitiveness and profitability of tradables following the initiation of adjustment did achieve substantial gains as regards the performance of exports. However, significant corrective actions in these areas were frequently delayed.
5. Increasing attention was devoted during the period under review to the formulation of structural and other measures in support of members' adjustment efforts. Although structural difficulties only infrequently

were the immediate source of large domestic or external imbalances, the large size and protracted nature of these imbalances increased the need for measures aimed at promoting supply, thus relieving the burden borne by adjustment of domestic demand. Results in these areas, however, were frequently considerably less than satisfactory, reflecting in part delays in the recognition of problems but also the difficulty of formulating and implementing appropriate corrective policies.

6. Performance relative to adjustment objectives varied widely in the countries under review. More than half of the countries in the sample achieved lower external current deficits although the extent to which such reductions were either sufficient or sustainable differed widely. Eight of the countries reviewed recorded external current deficits in 1983 which differed from the current balance considered sustainable in their circumstances by less than the equivalent of 5 percent of GDP, while nine countries experienced rates of consumer price increase in 1982-83 lower than the median for all non-oil developing countries. Performance as regards growth was also mixed: typically, countries experienced a slowdown of growth following the initiation of adjustment efforts; however, those countries which were successful in maintaining or re-establishing a relatively small external payments deficit subsequently achieved a strong recovery of growth. The relatively strong increase of exports for countries in this group made the recovery of growth possible.

7. Inadequate design of adjustment policies as well as incomplete implementation have been important causes of the failure to adjust. Key considerations highlighted in this respect are that the prospects for adjustment were enhanced when corrective policies were directed to the elimination of the ultimate source of the imbalance and addressed simultaneously significant problems in most major areas of policy. Quicker adjustment clearly reduced the risk that subsequent unfavorable developments would substantially increase the size of the remaining adjustment.

Table I. Rate of Increase of Consumer Prices ^{1/}

	All Years Before ^{2/}	Four Years Before			Four Years After			All Years After ^{3/}
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	17.96	12.72	16.36	14.54	25.01	5.51	15.26	15.26
Mauritius	14.90	11.29	11.50	11.39	28.24	8.52	18.38	18.38
Pakistan	12.55	9.78	8.67	9.23	11.18	6.41	8.80	8.80
Average	15.14	11.26	12.18	11.72	21.48	6.81	14.14	14.14
Small payments deficit, high inflation								
Egypt	10.30	10.83	10.03	10.30	11.45	15.09	13.27	13.84
Gabon	18.60	20.15	17.05	18.60	9.36	10.52	9.94	11.50
Kenya	16.04	15.22	15.89	15.56	10.91	16.14	13.52	13.12
Peru	28.00	20.26	35.74	28.00	62.76	66.10	64.43	75.95
Turkey	30.59	22.20	52.02	37.11	73.40	31.16	52.28	52.28
Average	20.70	17.73	26.15	21.91	33.58	27.80	30.69	33.34
Median	18.60	20.15	17.05	18.60	11.45	16.14	13.52	13.84
Large payments deficit, low inflation								
Bangladesh	14.83	3.66	9.99	6.83	14.78	10.96	12.87	12.87
Jamaica	17.18	24.38	13.59	17.18	23.25	28.51	25.88	19.05
Liberia	10.62	5.90	9.45	7.68	11.15	4.35	7.75	7.75
Mauritania	12.29	12.23	12.36	12.29	8.12	11.33	9.72	9.31
Morocco	11.62	12.68	10.56	11.62	8.97	10.92	9.95	9.44
Sri Lanka	16.96	22.88	11.04	16.96	13.90	30.70	22.30	18.59
Average	13.92	13.62	11.16	12.08	13.36	16.13	14.75	12.83
Median	13.56	12.45	10.80	11.96	12.53	11.14	11.41	11.16
Large payments deficit, high inflation								
Bolivia	18.88	6.31	15.03	10.67	39.69	199.56	119.62	119.62
Costa Rica	11.72	3.83	7.61	5.72	27.61	61.40	44.50	44.50
Guyana	10.68	12.68	8.67	10.68	16.44	18.14	17.29	23.20
Madagascar	9.84	4.02	10.35	7.19	23.05	25.10	24.08	24.08
Malawi	9.88	4.26	9.91	7.09	13.94	12.41	13.17	13.17
Senegal	12.40	6.19	6.54	6.37	7.34	14.38	10.86	10.86
Sudan	17.94	12.80	18.98	15.89	29.95	25.29	27.62	28.43
Tanzania	14.18	16.74	11.54	14.14	21.98	27.28	24.63	25.11
Zambia	12.34	8.10	14.47	12.34	18.08	10.70	14.39	14.81
Average	13.21	8.33	11.46	10.01	22.01	43.81	32.91	33.75
Median	12.34	6.31	10.35	10.67	21.98	25.10	24.08	24.08
All countries								
Average	15.27	12.14	14.67	13.36	22.20	28.28	25.24	25.65
Median	14.83	12.23	11.50	11.62	16.44	15.09	15.26	15.26
Memorandum items:								
All non-oil devel- oping countries ^{4/}								
Average	25.20	26.40	24.00	25.20	27.20	32.80	30.00	31.40
Median	12.50	12.80	10.80	11.80	12.70	12.50	12.60	12.50

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{2/} Since 1973.^{3/} Until 1983.^{4/} Weighted averages with weights reflecting the yearly composition of the relevant subperiods for countries in the sample.

Table II. Rate of Increase of GDP ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Year, After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	9.41	11.75	8.73	10.24	1.99	7.40	4.69	4.69
Mauritius	7.31	11.96	5.14	8.55	-2.06	4.43	1.19	1.19
Pakistan	5.08	5.20	6.41	5.81	6.58	5.25	5.91	5.91
Average	7.26	9.64	6.76	8.20	2.17	5.69	3.93	3.93
Small payments deficit, high inflation								
Egypt	9.52	-4.60	16.58	9.52	8.66	5.53	7.09	7.08
Gabon	16.25	23.16	9.34	16.25	-14.09	-1.72	-7.91	-4.77
Kenya	4.80	2.12	8.47	5.30	4.08	2.96	3.52	3.57
Peru	3.01	5.09	0.93	3.01	0.99	12.68	6.84	2.32
Turkey	5.46	6.51	1.17	3.84	1.85	4.05	2.95	2.95
Average	7.81	6.46	7.30	7.58	0.30	4.70	2.50	2.23
Median	5.46	5.09	8.47	5.30	1.85	4.05	3.52	2.95
Large payments deficit, low inflation								
Bangladesh	6.71	6.80	5.56	6.18	4.05	2.08	3.07	3.07
Jamaica	-4.04	-1.48	-5.32	-4.04	-0.99	-3.80	-2.40	-0.67
Liberia	2.70	3.45	4.00	3.72	-3.15	-4.45	-3.80	-3.80
Mauritania	3.74	4.12	3.36	3.74	0.53	6.08	3.30	1.94
Morocco	9.20	9.65	8.74	9.20	3.86	1.18	2.52	3.19
Sri Lanka	5.35	5.95	4.75	5.35	6.25	5.80	6.02	5.68
Average	3.94	4.75	3.52	4.03	1.76	1.15	1.45	1.57
Median	4.54	5.03	4.38	4.54	2.19	1.63	2.79	2.50
Large payments deficit, high inflation								
Bolivia	4.58	5.13	2.59	3.86	-0.18	-8.23	-4.21	-4.21
Costa Rica	5.55	7.21	5.60	6.41	-0.75	-2.54	-1.65	-1.65
Guyana	3.76	7.40	0.13	3.76	-1.16	3.28	1.06	-2.86
Madagascar	1.43	-0.73	3.45	1.36	-4.36	-0.45	-2.41	-2.41
Malawi	6.09	5.28	6.49	5.89	-0.20	3.91	1.85	1.85
Senegal	3.56	3.11	1.70	2.40	-2.03	8.60	3.28	3.28
Sudan	9.23	13.07	3.75	8.41	-2.46	3.27	0.41	-0.13
Tanzania	5.21	6.15	5.62	5.88	3.33	-2.47	0.43	0.43
Zambia	3.33	6.74	1.62	3.33	-2.14	-2.06	-2.10	-0.73
Average	4.75	5.93	3.44	4.59	-1.11	0.37	-0.37	-0.71
Median	4.58	6.15	3.45	3.86	-1.16	-0.45	0.41	-0.73
All countries								
Average	5.53	6.22	4.73	5.56	0.37	2.21	1.29	1.13
Median	5.21	5.95	4.75	5.35	-0.18	3.27	1.85	1.85
Memorandum items:								
All non-oil devel- oping countries ^{4/}								
Average	5.40	5.30	5.70	5.50	4.90	2.90	3.90	3.50
Median	5.00	5.00	5.30	5.20	4.40	2.70	3.60	3.30

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{2/} Since 1973.

^{3/} Until 1983.

^{4/} Weighted averages with weights reflecting the yearly composition of the relevant subperiods for countries in the sample.

Table III. Gross National Saving as Percentage of GNP 1/ 2/

	All Years Before 3/	Four Years Before			Four Years After			All Years After 4/
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	25.00	26.24	29.02	27.63	22.40	24.11	23.26	23.26
Mauritius	23.88	22.53	18.74	20.63	11.64	15.18	13.41	13.41
Pakistan	15.73	18.69	18.13	18.41	18.31	22.62	20.47	20.47
Average	21.54	22.49	21.96	22.22	17.45	20.64	19.04	19.04
Small payments deficit, high inflation								
Egypt	10.88	5.25	16.51	10.88	24.27	24.22	24.24	21.70
Gabon	56.87	63.55	62.30	62.93	38.77	53.00	45.88	48.58
Kenya	16.54	12.79	19.45	16.12	9.24	9.76	9.50	10.06
Peru	10.84	11.27	9.64	10.45	18.49	17.28	17.89	17.10
Turkey	19.81	20.80	18.12	19.46	20.81	20.92	20.86	20.86
Average	22.99	22.73	25.20	23.97	22.32	25.03	23.68	23.66
Median	16.54	12.79	18.12	16.12	20.81	20.92	20.86	20.86
Large payments deficit, low inflation								
Bangladesh	2.39	1.39	4.54	2.96	5.45	6.86	6.16	6.16
Jamaica	17.48	22.16	12.79	17.48	10.22	12.89	11.55	10.38
Liberia	14.77	15.91	11.43	13.67	10.71	7.81	9.26	9.26
Mauritania	1.30	8.59	-12.38	-1.89	-12.69	1.61	-5.54	-6.38
Morocco	22.51	25.69	20.74	23.22	20.67	18.68	19.67	19.34
Sri Lanka	11.53	7.49	15.52	11.50	15.21	14.21	14.71	15.19
Average	11.66	13.54	8.77	11.16	8.26	10.34	9.30	8.99
Median	13.15	12.25	12.11	12.59	10.46	10.35	10.41	9.82
Large payments deficit, high inflation								
Bolivia	16.87	18.31	9.53	13.92	4.83	-7.05	-1.11	-1.11
Costa Rica	13.12	16.50	12.66	14.58	10.17	7.57	8.87	8.87
Guyana	15.73	28.31	8.08	18.19	16.33	10.79	13.56	3.96
Madagascar	9.33	11.17	7.89	9.53	7.03	5.77	6.40	6.40
Malawi	16.69	16.82	16.06	16.44	8.31	12.32	10.31	10.31
Senegal	8.82	9.66	4.64	7.15	-1.88	3.18	0.65	0.65
Sudan	...	...	...	...	...	...	...	...
Tanzania	11.44	13.31	10.60	11.96	9.17	12.09	10.63	10.63
Zambia	33.62	43.03	24.21	33.62	20.72	21.36	21.04	15.77
Average	15.70	19.64	11.71	15.67	9.33	8.25	8.79	6.94
Median	14.43	16.66	10.06	14.25	8.74	9.18	9.59	7.64
All countries								
Average	17.05	19.07	15.37	17.22	13.10	14.33	13.71	12.95
Median	15.73	16.66	14.16	15.35	11.17	12.60	12.48	10.50

Sources: Data provided by the authorities; and staff estimates.

1/ Includes private but not public transfers.

2/ Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

3/ Since 1973.

4/ Until 1983.

Table IV. Gross Domestic Investment as Percentage of GNP ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	29.65	26.69	33.42	30.05	30.20	27.32	28.76	28.76
Mauritius	28.03	30.22	31.23	30.72	23.52	18.83	21.18	21.18
Pakistan	16.09	16.91	16.28	16.60	15.54	15.70	15.62	15.62
Average	24.59	24.61	26.98	25.79	23.09	20.62	21.85	21.85
Small payments deficit, high inflation								
Egypt	23.14	15.56	30.72	23.14	28.06	29.01	28.53	26.78
Gabon	55.35	56.16	61.61	58.88	39.10	33.35	36.22	37.05
Kenya	25.12	20.16	28.18	24.17	28.89	27.99	28.44	27.42
Peru	17.57	19.41	16.73	18.07	15.20	20.56	17.88	18.74
Turkey	21.80	24.86	18.40	21.63	21.43	20.50	20.97	20.97
Average	28.59	27.23	31.13	29.18	26.53	26.28	26.41	26.19
Median	23.14	20.16	28.18	23.14	28.06	27.99	28.44	26.78
Large payments deficit, low inflation								
Bangladesh	9.07	9.35	10.97	10.16	13.28	12.53	12.90	12.90
Jamaica	24.93	27.98	21.88	24.93	14.29	18.47	16.38	18.82
Liberia	29.06	33.08	29.58	31.33	22.32	21.23	21.78	21.78
Mauritania	30.11	25.85	37.15	31.50	26.23	37.36	31.80	33.08
Morocco	23.72	22.11	30.13	26.12	24.45	22.09	23.27	22.77
Sri Lanka	15.26	15.77	15.45	15.61	23.05	31.19	27.12	28.18
Average	22.03	22.36	24.19	23.28	20.61	23.81	22.21	22.92
Median	24.32	23.98	25.73	25.52	22.69	21.66	22.52	22.25
Large payments deficit, high inflation								
Bolivia	21.02	21.42	19.57	20.49	13.46	8.63	11.04	11.04
Costa Rica	24.77	24.61	25.24	24.93	26.64	20.26	23.45	23.45
Guyana	32.42	30.90	35.79	33.34	27.38	35.75	31.57	31.21
Madagascar	15.79	14.35	19.90	17.13	20.75	13.27	17.01	17.01
Malawi	29.83	26.26	37.15	31.71	24.42	22.42	23.42	23.42
Senegal	17.80	16.99	15.90	16.44	15.97	15.94	15.95	15.95
Sudan	...	...	...	...	...	...	...	...
Tanzania	20.77	20.77	19.94	20.35	22.03	21.00	21.51	21.51
Zambia	30.94	31.17	30.71	30.94	23.74	18.09	20.92	19.19
Average	24.17	23.31	25.53	24.42	21.80	19.42	20.61	20.35
Median	22.90	23.01	22.59	22.71	22.89	19.17	21.21	20.35
All countries								
Average	24.65	24.12	26.63	25.37	22.73	22.34	22.53	22.58
Median	24.24	23.36	26.71	24.55	23.29	20.78	21.64	21.64

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{2/} Since 1973.

^{3/} Until 1983.

Table V. Saving/Investment Balance as Percentage of GNP ^{1/} _{2/}

	All Years Before <u>3/</u>	Four Years Before			Four Years After			All Years After <u>4/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	-4.65	-0.45	-4.39	-2.42	-7.81	-3.20	-5.50	-5.50
Mauritius	-4.15	-7.69	-12.49	-10.09	-11.88	-3.65	-7.77	-7.77
Pakistan	-0.35	1.77	1.85	1.81	2.78	6.92	4.85	4.85
Average	-3.05	-2.12	-5.01	-3.57	-5.64	0.02	-2.81	-2.81
Small payments deficit, high inflation								
Egypt	-12.26	-10.31	-14.20	-12.26	-3.79	-4.79	-4.29	-5.07
Gabon	1.53	7.39	0.70	4.04	-0.33	19.65	9.66	11.52
Kenya	-8.57	-7.37	-8.74	-8.05	-19.65	-18.23	-18.94	-17.36
Peru	-6.72	-8.14	-7.09	-7.62	3.29	-3.28	0.01	-1.64
Turkey	-1.98	-4.05	-0.28	-2.17	-0.62	0.42	-0.10	-0.10
Average	-6.68	-7.97	-6.43	-7.20	-7.83	-5.67	-6.75	-6.75
Median	-6.72	-7.37	-7.09	-7.62	-0.62	-3.28	-0.10	-1.64
Large payments deficit, low inflation								
Bangladesh	-6.68	-7.97	-6.43	-7.20	-7.83	-5.67	-6.75	-6.75
Jamaica	-7.45	-5.82	-9.08	-7.45	-4.08	-5.59	-4.83	-8.44
Liberia	-14.29	-17.17	-18.15	-17.66	-11.62	-13.42	-12.52	-12.52
Mauritania	-28.81	-17.25	-49.53	-33.39	-38.92	-35.75	-37.34	-39.46
Morocco	-1.21	3.58	-9.39	-2.90	-3.79	-3.41	-3.60	-3.43
Sri Lanka	-3.73	-8.28	0.07	-4.11	-7.84	-16.98	-12.41	-12.99
Average	-10.36	-8.82	-15.42	-12.12	-12.34	-13.47	-12.91	-13.93
Median	-7.06	-8.12	-9.24	-7.33	-7.83	-9.54	-9.58	-10.48
Large payments deficit, high inflation								
Bolivia	-4.16	-3.11	-10.04	-6.58	-8.63	-15.68	-12.15	-12.15
Costa Rica	-11.65	-8.11	-12.58	-10.35	-16.47	-12.69	-14.58	-14.58
Guyana	-16.69	-2.59	-27.72	-15.15	-11.05	-24.96	-18.00	-27.24
Madagascar	-6.45	-3.18	-12.01	-7.60	-13.72	-7.50	-10.61	-10.61
Malawi	-13.14	-9.44	-21.09	-15.26	-16.11	-10.10	-13.11	-13.11
Senegal	-8.98	-7.32	-11.25	-9.29	-17.85	-12.76	-15.30	-15.30
Sudan	...	...	...	...	...	...	...	...
Tanzania	-9.33	-7.46	-9.34	-8.40	-12.86	-8.91	-10.89	-10.89
Zambia	2.68	11.86	-6.50	2.68	-3.02	3.28	0.13	-3.42
Average	-8.46	-3.67	-13.82	-8.74	-12.46	-11.16	-11.81	-13.41
Median	-9.16	-5.25	-11.63	-8.84	-13.29	-11.39	-12.63	-12.63
All countries								
Average	-7.59	-5.05	-11.26	-8.15	-9.63	-8.01	-8.82	-9.63
Median	-6.70	-7.35	-9.36	-7.61	-8.23	-6.58	-9.19	-9.53

Sources: Data provided by the authorities; and staff estimates.

^{1/} Includes private but not public transfers.

^{2/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{3/} Since 1973.^{4/} Until 1983.

Table VI. Budget Saving/Investment Balance as Percentage of GNP ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	-3.56	-3.16	-3.02	-3.09	-4.44	-3.22	-3.83	-3.83
Mauritius	-6.85	-6.55	-11.70	-9.12	-11.83	-11.21	-11.52	-11.52
Pakistan	-8.41	-8.16	-7.62	-7.89	-5.56	-6.59	-6.07	-6.07
Average	-6.27	-5.95	-7.45	-6.70	-7.28	-7.01	-7.14	-7.14
Small payments deficit, high inflation								
Egypt	-19.94	-17.02	-22.86	-19.94	-17.56	-18.32	-17.94	-18.07
Gabon	-14.54	-6.53	-23.82	-15.17	0.73	9.16	4.94	5.27
Kenya	-4.80	-5.64	-4.48	-5.06	-7.43	-9.48	-8.45	-7.72
Peru	-5.38	-4.37	-7.06	-5.72	-2.94	-3.98	-3.46	-4.52
Turkey	-3.34	-3.70	-4.02	-3.86	-3.98	-2.51	-3.24	-3.24
Average	-9.60	-7.45	-12.45	-9.95	-6.24	-5.05	-5.64	-5.66
Median	-5.38	-5.64	-7.06	-5.72	-3.98	-4.01	-3.47	-4.54
Large payments deficit, low inflation								
Bangladesh	-5.95	-5.45	-7.22	-6.34	-10.48	-9.80	-10.14	-10.14
Jamaica	-11.04	-6.80	-15.27	-11.04	-16.47	-16.19	-16.33	-17.27
Liberia	-5.75	-5.07	-13.56	-9.31	-12.34	-14.19	-13.26	-13.26
Mauritania	-21.13	-9.49	-41.82	-25.66	-37.89	-31.87	-34.88	-34.25
Morocco	-9.54	-6.50	-16.38	-11.44	-11.14	-12.90	-12.02	-11.78
Sri Lanka	-7.50	-6.79	-8.98	-7.88	-13.82	-19.59	-16.70	-16.36
Average	-10.15	-6.68	-17.21	-11.94	-17.02	-17.42	-17.22	-17.17
Median	-8.52	-6.64	-14.42	-10.18	-13.08	-15.19	-14.80	-14.81
Large payments deficit, high inflation								
Bolivia	-3.55	-4.60	-5.87	-5.24	-7.16	-10.70	-8.93	-8.93
Costa Rica	-4.30	-4.05	-6.08	-5.07	-7.16	-3.79	-5.48	-5.48
Guyana	-18.40	-8.16	-28.21	-18.18	-19.25	-39.37	-29.31	-42.33
Madagascar	-4.49	-2.08	-8.83	-5.45	-16.48	-7.87	-12.17	-12.17
Malawi	-9.60	-8.34	-13.26	-10.80	-15.93	-10.97	-13.45	-13.45
Senegal	-2.00	-2.24	-0.49	-1.37	-4.25	-2.41	-3.33	-3.33
Sudan	...	...	...	...	...	...	...	...
Tanzania	-8.57	-10.74	-8.11	-9.42	-16.92	-15.75	-16.33	-16.33
Zambia	-9.72	-1.68	-17.76	-9.72	-12.07	-12.39	-12.23	-12.15
Average	-7.58	-5.24	-11.08	-8.16	-12.40	-12.91	-12.65	-14.27
Median	-6.53	-4.33	-8.47	-7.44	-14.00	-10.83	-12.20	-12.16
All countries								
Average	-8.56	-6.23	-12.57	-9.40	-11.56	-11.54	-11.55	-12.13
Median	-7.18	-6.07	-8.90	-8.51	-11.48	-10.83	-11.77	-11.65

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{2/} Since 1973.

^{3/} Until 1983.

Table VII. Nongovernment Saving/Investment Balance
as Percentage of GNP 1/ 2/

	All Years Before	Four Years Before			Four Years After			All Years After
	<u>3/</u>	First half	Second half	Total	First half	Second half	Total	<u>4/</u>
(In percent)								
Small payments deficit, low inflation								
Korea	-1.09	2.71	-1.37	0.67	-3.36	0.02	-1.67	-1.67
Mauritius	2.71	-1.14	-0.79	-0.97	-0.05	7.56	3.75	3.75
Pakistan	8.05	9.93	9.47	9.70	8.34	13.51	10.92	10.92
Average	3.22	3.83	2.43	3.13	1.64	7.03	4.34	4.34
Small payments deficit, high inflation								
Egypt	7.68	6.71	8.66	7.68	13.78	13.53	13.65	13.00
Gabon	16.07	13.91	24.52	19.22	-1.05	10.49	4.72	6.26
Kenya	-3.78	-1.73	-4.26	-2.99	-12.22	-8.75	-10.49	-9.64
Peru	-1.35	-3.77	-0.02	-1.90	6.23	0.70	3.46	2.88
Turkey	1.36	-0.36	3.74	1.69	3.35	2.92	3.14	3.14
Average	4.00	2.95	6.53	4.74	2.02	3.78	2.90	3.13
Median	1.36	-0.36	3.74	1.69	3.35	2.92	3.46	3.14
Large payments deficit, low inflation								
Bangladesh	-0.73	-2.52	0.79	-0.86	2.65	4.13	3.39	3.39
Jamaica	3.59	0.99	6.19	3.59	12.40	10.61	11.50	8.82
Liberia	-8.54	-12.10	-4.59	-8.35	0.72	0.77	0.75	0.75
Mauritania	-7.68	-7.76	-7.70	-7.73	-1.03	-3.88	-2.46	-5.21
Morocco	8.33	10.08	6.99	8.53	7.35	9.49	8.42	8.35
Sri Lanka	3.77	-1.49	9.04	3.78	5.98	2.60	4.29	3.36
Average	-0.21	-2.13	1.79	-0.17	4.68	3.95	4.32	3.24
Median	1.43	-2.00	3.49	1.36	4.38	3.37	3.84	3.38
Large payments deficit, high inflation								
Bolivia	-0.61	1.49	-4.17	-1.34	-1.46	-4.98	-3.22	-3.22
Costa Rica	-7.35	-4.06	-6.50	-5.28	-9.31	-8.89	-9.10	-9.10
Guyana	1.71	5.57	0.49	3.03	8.20	14.41	11.30	15.08
Madagascar	-1.97	-1.11	-3.18	-2.15	2.76	0.37	1.56	1.56
Malawi	-3.54	-1.10	-7.83	-4.46	-0.18	0.87	0.34	0.34
Senegal	-6.98	-5.08	-10.76	-7.92	-13.60	-10.35	-11.98	-11.98
Sudan	...	...	...	...	...	...	...	...
Tanzania	-0.76	3.27	-1.22	1.02	4.06	6.84	5.45	5.45
Zambia	12.40	13.54	11.26	12.40	9.05	15.67	12.36	8.73
Average	-0.89	1.57	-2.74	-0.59	-0.06	1.74	0.84	0.86
Median	-1.36	0.20	-3.68	-1.74	1.29	0.62	0.95	0.95
All countries								
Average	0.97	1.18	1.31	1.24	1.94	3.53	2.73	2.50
Median	-0.67	-0.73	-0.41	-0.10	2.70	2.76	3.43	3.25

Sources: Data provided by the authorities; and staff estimates.

1/ Includes private but not public transfers.2/ Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.3/ Since 1973.4/ Until 1983.

Table VIII. Ratio of Government Revenue to GDP

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with deficit increases <u>3/</u>								
Guyana	32.80	36.92	33.01	34.97	30.01	33.21	31.61	33.52
Sri Lanka	19.42	19.01	19.45	19.23	26.63	22.51	24.57	23.41
Tanzania	20.21	20.89	20.37	20.63	22.84	23.95	23.40	23.40
Senegal	19.98	20.33	22.01	21.17	21.33	19.10	20.22	20.22
Bolivia	12.19	13.38	12.24	12.81	11.95	8.45	10.20	10.20
Kenya	19.20	19.31	20.59	19.95	23.04	24.32	23.68	23.34
Bangladesh	9.51	10.36	11.92	11.14	13.07	14.25	13.66	13.66
Korea	16.85	17.96	18.37	18.17	19.50	19.28	19.39	19.39
Jamaica	22.35	21.35	23.34	22.35	24.66	25.84	25.25	26.36
Average	19.17	19.95	20.15	20.05	21.45	21.21	21.33	21.50
Median	19.42	19.31	20.37	19.95	22.84	22.51	23.40	23.34
Countries with deficit reductions <u>3/</u>								
Malawi	19.61	17.68	23.48	20.58	23.31	20.77	22.04	22.04
Liberia	20.31	21.21	21.20	21.21	21.43	24.38	22.91	22.91
Madagascar	16.96	18.16	19.78	18.97	16.50	15.23	15.86	15.86
Mauritius	18.18	22.10	19.14	20.62	20.57	20.87	20.72	20.72
Morocco	22.57	23.02	24.91	23.97	24.02	23.78	23.90	23.67
Turkey	22.05	21.56	23.06	22.31	20.04	17.68	18.86	18.86
Pakistan	15.15	14.96	15.97	15.46	16.36	16.85	16.60	16.60
Costa Rica	13.50	13.34	12.79	13.07	12.44	15.40	13.92	13.92
Egypt	28.51	27.48	29.55	28.51	33.67	36.36	35.02	36.84
Peru	14.96	15.58	14.57	15.07	16.89	19.23	18.06	17.33
Zambia	28.05	29.36	26.75	28.05	25.83	24.85	25.34	24.94
Mauritania	29.12	26.36	34.31	30.33	48.12	34.36	41.24	39.27
Gabon	28.21	30.10	28.36	29.23	38.85	37.31	38.08	38.72
Average (Excluding Gabon)	21.32 (20.75)	21.61 (20.90)	22.61 (22.13)	22.11 (21.52)	24.46 (23.26)	23.62 (22.48)	24.04 (22.87)	23.97 (22.74)
Median	20.31	21.56	23.06	21.21	21.43	20.87	22.04	22.04
All countries								
Average	20.44	20.93	21.60	21.26	23.23	22.64	22.93	22.96
Median	19.80	20.61	20.90	20.63	22.14	21.69	22.47	22.47

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.2/ Until 1983.3/ Following the initiation of adjustment.

Table IX. Ratio of Government Current Expenditure to GDP

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with deficit increases <u>3/</u>								
Guyana	32.42	26.86	38.65	32.75	35.52	45.58	40.55	46.75
Sri Lanka	19.18	17.82	20.43	19.12	25.09	21.70	23.40	21.84
Tanzania	16.58	17.87	15.60	16.73	22.98	25.23	24.10	24.10
Bolivia	11.53	12.21	12.97	12.59	15.60	15.87	15.74	15.74
Kenya	15.94	15.86	17.04	16.45	20.01	22.51	21.26	20.70
Bangladesh	6.38	7.61	6.45	7.03	8.49	7.99	8.24	8.24
Senegal <u>4/</u>	17.96	18.26	19.87	19.06	22.73	20.04	21.38	21.38
Korea	14.23	14.65	14.68	14.67	15.80	16.24	16.02	16.02
Jamaica	<u>23.24</u>	<u>20.60</u>	<u>25.88</u>	<u>23.24</u>	<u>29.04</u>	<u>31.67</u>	<u>30.35</u>	<u>32.11</u>
Average	17.50	16.86	19.06	17.96	21.70	22.98	22.34	22.99
Median	16.58	17.82	17.04	16.73	22.73	21.70	21.38	21.38
Countries with deficit reductions <u>3/</u>								
Liberia	13.18	13.54	13.64	13.59	18.92	25.69	22.30	22.30
Pakistan	14.93	14.09	15.29	14.69	14.31	16.98	15.64	15.64
Madagascar	16.48	16.32	20.96	18.64	21.16	16.18	18.67	18.67
Mauritius	17.89	20.47	21.56	21.01	23.44	25.02	24.23	24.23
Morocco	17.76	19.67	17.71	18.69	19.88	23.22	21.55	21.95
Malawi	15.53	14.07	18.50	16.29	20.63	19.03	19.83	19.83
Turkey	17.39	16.49	18.92	17.71	16.13	13.72	14.92	14.92
Costa Rica	13.75	13.52	14.53	14.02	14.87	15.54	15.21	15.21
Egypt	34.00	31.32	36.68	34.00	31.39	34.65	33.02	34.58
Peru	15.76	15.12	17.15	16.14	15.91	17.89	16.90	17.37
Zambia	27.49	22.35	32.63	27.49	28.09	31.92	30.00	30.59
Mauritania	27.67	22.03	35.84	28.93	37.86	32.33	35.09	34.90
Gabon	<u>13.42</u>	<u>12.92</u>	<u>11.61</u>	<u>12.26</u>	<u>20.28</u>	<u>17.06</u>	<u>18.67</u>	<u>18.18</u>
Average	18.87	17.84	21.15	19.50	21.76	22.25	22.00	22.18
(Excluding Gabon)	(19.32)	(18.25)	(21.95)	(20.10)	(21.88)	(22.68)	(22.28)	(22.51)
Median	16.48	16.32	18.50	17.71	20.28	19.03	19.83	19.83
All countries								
Average	18.31	17.44	20.30	18.87	21.73	22.55	22.14	22.51
Median	16.53	16.40	18.10	17.22	20.46	20.87	21.32	21.04

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.

2/ Until 1983.

3/ Following the initiation of adjustment.

4/ In order to make the data for the periods before and after the initiation of adjustment comparable, transfers to Treasury correspondents are excluded during the period 1980-83.

Table X. Ratio of Government Capital Expenditure to GDP

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with deficit increases <u>3/</u>								
Guyana	17.68	17.85	20.97	19.41	11.98	23.18	17.58	24.62
Sri Lanka	6.85	6.64	7.30	6.97	13.18	16.58	14.88	14.78
Tanzania	10.08	10.97	10.27	10.62	12.79	10.62	11.70	11.70
Bolivia	3.93	5.43	4.72	5.08	3.05	2.13	2.59	2.59
Kenya	7.35	8.15	7.25	7.70	9.02	9.36	9.19	8.62
Bangladesh	6.37	6.06	8.99	7.53	11.16	10.93	11.04	11.04
Senegal <u>4/</u>	4.02	4.31	2.64	3.47	1.98	0.67	1.33	1.33
Korea	5.43	6.08	5.67	5.88	7.50	5.94	6.72	6.72
Jamaica	<u>10.00</u>	<u>7.60</u>	<u>12.41</u>	<u>10.00</u>	<u>11.29</u>	<u>9.15</u>	<u>10.22</u>	<u>10.45</u>
Average	7.97	8.12	8.91	8.52	9.11	9.84	9.47	10.21
Median	6.85	6.64	7.30	7.53	11.16	9.36	10.22	10.45
Countries with deficit reductions <u>3/</u>								
Liberia	10.32	10.24	17.99	14.12	11.80	8.74	10.27	10.27
Pakistan	8.93	9.45	8.75	9.10	7.94	7.04	7.49	7.49
Madagascar	4.96	3.92	7.65	5.78	11.81	6.91	9.36	9.36
Mauritius	6.95	8.05	9.16	8.61	8.62	6.35	7.48	7.48
Morocco	12.83	9.45	20.23	14.84	13.25	12.37	12.81	12.25
Malawi	11.24	9.83	14.35	12.09	13.99	9.79	11.89	11.89
Turkey	8.06	8.81	8.23	8.52	7.98	6.48	7.23	7.23
Costa Rica	3.91	3.74	4.14	3.94	4.17	3.16	3.67	3.67
Egypt	14.20	12.86	15.53	14.20	21.24	21.38	21.31	21.48
Peru	4.49	4.78	4.35	4.56	3.81	5.19	4.50	4.32
Zambia	10.48	8.78	12.19	10.48	8.92	4.89	6.91	5.92
Mauritania	15.07	9.96	26.20	18.08	21.64	18.03	19.84	19.48
Gabon	<u>28.44</u>	<u>23.27</u>	<u>39.34</u>	<u>31.30</u>	<u>17.88</u>	<u>11.93</u>	<u>14.91</u>	<u>15.75</u>
Average (Excluding Gabon)	10.76 (9.29)	9.47 (8.32)	14.47 (12.40)	11.97 (10.36)	11.77 (11.26)	9.41 (9.20)	10.59 (10.23)	10.51 (10.07)
Median	10.32	9.45	12.19	10.48	11.80	7.04	9.36	9.36
All countries								
Average	9.62	8.92	12.20	10.56	10.68	9.58	10.13	10.38
Median	8.49	8.46	9.08	8.85	11.22	8.95	9.79	9.82

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.

2/ Until 1983.

3/ Following the initiation of adjustment.

4/ In order to make the data for the periods before and after the initiation of adjustment comparable, extrabudgetary development outlays are excluded during the period 1980-83.

Table XI. Ratio of Government Balance to GDP

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with deficit increases <u>3/</u>								
Guyana	-17.29	-7.78	-26.61	-17.19	-17.48	-35.54	-26.51	-37.84
Sri Lanka	-6.61	-5.44	-8.27	-6.86	-11.65	-15.77	-13.71	-13.21
Tanzania	-6.45	-7.94	-5.49	-6.72	-12.92	-11.89	-12.41	-12.41
Bolivia	-3.28	-4.27	-5.45	-4.86	-6.70	-9.54	-8.12	-8.12
Kenya	-4.09	-4.70	-3.71	-4.20	-5.99	-7.55	-6.77	-5.98
Bangladesh	-3.24	-3.31	-3.51	-3.41	-6.57	-4.66	-5.62	-5.62
Senegal <u>4/</u>	-2.00	-2.24	-0.49	-1.37	-3.38	-1.62	-2.50	-2.50
Korea	-2.81	-2.77	-1.99	-2.38	-3.81	-2.90	-3.35	-3.35
Jamaica	-10.89	-6.85	-14.94	-10.89	-15.66	-14.98	-15.32	-16.20
Average	-6.30	-5.03	-7.83	-6.43	-9.35	-11.61	-10.48	-11.69
Median	-4.09	-4.70	-5.45	-4.86	-6.70	-9.54	-8.12	-8.12
Countries with deficit reductions <u>3/</u>								
Liberia	-3.19	-2.57	-10.43	-6.50	-9.29	-10.05	-9.67	-9.67
Pakistan	-8.71	-8.59	-8.07	-8.33	-5.90	-7.17	-6.53	-6.53
Madagascar	-4.49	-2.08	-8.83	-5.45	-16.48	-7.87	-12.17	-12.17
Mauritius	-6.65	-6.42	-11.58	-9.00	-11.49	-10.50	-10.99	-10.99
Morocco	-8.02	-6.10	-13.02	-9.56	-9.11	-11.81	-10.46	-10.53
Malawi	-7.16	-6.22	-9.36	-7.79	-11.32	-8.05	-9.68	-9.68
Turkey	-3.40	-3.74	-4.09	-3.92	-4.07	-2.52	-3.50	-3.30
Costa Rica	-4.15	-3.92	-5.87	-4.90	-6.61	-3.30	-4.96	-4.96
Egypt	-19.68	-16.70	-22.66	-19.68	-18.96	-19.67	-19.32	-19.22
Peru	-5.29	-4.32	-6.94	-5.63	-2.84	-3.87	-3.35	-4.38
Zambia	-9.92	-1.78	-18.07	-9.92	-11.19	-11.96	-11.57	-11.57
Mauritania	-13.63	-5.62	-27.73	-16.68	-11.37	-16.00	-13.69	-15.11
Gabon	-13.66	-6.09	-22.59	-14.34	0.69	8.26	4.48	4.78
Average	-8.30	-5.70	-13.02	-9.36	-9.07	-8.04	-8.56	-8.72
(Excluding Gabon)	(-7.85)	(-5.67)	(-12.22)	(-8.95)	(-9.88)	(-9.40)	(-9.65)	(-9.85)
Median	-7.16	-5.62	-10.43	-8.33	-9.29	-8.05	-9.68	-9.68
All countries								
Average	-7.48	-5.43	-10.89	-8.16	-9.19	-9.50	-9.34	-9.93
Median	-6.53	-5.07	-8.55	-6.79	-9.20	-8.80	-9.68	-9.68

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.

2/ Until 1983.

3/ Following the initiation of adjustment.

4/ Excludes transfers to Treasury correspondents and extrabudgetary development outlays. See Tables 8 and 9.

Table XII. Cyclically Adjusted Budget Balance
as Percentage of GDP ^{1/}

	All	Four Years Before			Four Years After			All
	Years	First	Second	Total	First	Second	Total	Years
	Before	half	half		half	half		After
	<u>2/</u>							<u>3/</u>
(In percent)								
Countries with deficit increases								
Guyana	-19.41	-14.05	-28.22	-21.14	-17.85	-38.85	-28.35	-37.45
Sri Lanka	-6.34	-6.13	-7.44	-6.78	-13.46	-16.12	-14.79	-13.73
Tanzania	-6.45	-7.94	-5.49	-6.72	-12.92	-11.89	-12.41	-12.41
Bolivia	-3.51	-4.11	-6.94	-5.52	-8.78	-8.14	-8.46	-8.46
Kenya	-4.09	-4.70	-3.71	-4.20	-5.99	-7.55	-6.77	-5.98
Bangladesh	-3.20	-2.77	-3.90	-3.33	-7.63	-3.99	-5.81	-5.81
Senegal	-2.02	-2.38	-0.58	-1.48	-3.23	-1.43	-2.33	-2.33
Korea	-2.92	-2.79	-2.84	-2.81	-4.94	-1.65	-3.29	-3.29
Jamaica	-10.92	-6.06	-15.78	-10.92	-16.06	-15.58	-15.82	-16.31
Average	-6.54	-5.66	-8.32	-6.99	-10.09	-11.69	-10.89	-11.75
Median	-4.09	-4.70	-5.49	-5.52	-8.78	-8.14	-8.46	-8.46
Countries with deficit reductions								
Liberia	-3.49	-3.61	-11.42	-7.51	-10.00	-8.59	-9.29	-9.29
Pakistan	-8.67	-8.19	-8.35	-8.27	-5.89	-7.12	-6.51	-6.51
Madagascar	-5.37	-4.80	-10.53	-7.66	-16.39	-6.05	-11.22	-11.22
Mauritius	-6.68	-6.41	-11.65	-9.03	-11.54	-10.36	-10.95	-10.95
Morocco	-8.08	-6.83	-12.77	-9.80	-9.50	-12.58	-11.04	-10.70
Malawi	-7.16	-6.23	-9.37	-7.80	-11.33	-8.04	-9.68	-9.68
Turkey	-2.97	-3.74	-4.09	-3.92	-4.07	-2.52	-3.30	-3.30
Costa Rica	-4.34	-4.82	-6.56	-5.69	-7.09	-2.01	-4.55	-4.55
Egypt	...	...	...	...	...	...	...	...
Peru	-5.19	-4.47	-6.81	-5.64	-3.08	-4.62	-3.85	-4.51
Zambia	-9.94	-3.96	-15.92	-9.94	-10.08	-14.63	-12.35	-11.76
Mauritania	-13.76	-6.13	-28.12	-17.12	-10.47	-16.43	-13.45	-14.37
Gabon	-14.01	-6.03	-22.80	-14.41	-0.13	8.09	3.98	4.54
Average	-7.47	-5.43	-12.36	-8.90	-8.30	-7.07	-7.68	-7.69
Median	-6.92	-5.43	-10.97	-8.03	-9.75	-7.58	-9.49	-9.49
Overall average	-7.07	-5.53	-10.63	-8.08	-9.07	-9.05	-9.06	-9.43
Median	-6.34	-4.82	-8.35	-7.51	-9.50	-8.04	-9.29	-9.29

Sources: Data provided by the authorities; and staff estimates.

^{1/} Adjusted for the effect on budget revenues of temporary fluctuations in export receipts reflecting temporary fluctuations in export prices and volumes (from fluctuations in foreign demand, droughts, wars, etc.). See Appendix E.

^{2/} Since 1973.

^{3/} Until 1983.

Table XIII. Rate of Increase of Money

	All Years Before <u>2/</u>	Four Years Before 1/			Four Years After 1/			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries which reduced the ratio of credit to GDP								
Costa Rica	30.71	32.42	24.98	28.70	38.16	42.65	40.41	40.41
Gabon	53.58	64.88	42.27	53.58	-2.24	20.07	8.92	11.20
Pakistan	21.64	21.27	19.36	20.31	13.36	18.36	15.86	15.86
Peru	25.00	25.45	24.54	25.00	69.81	85.68	77.74	80.33
Turkey	34.73	28.99	47.81	38.40	76.37	42.38	59.37	59.37
Average	33.13	34.60	31.79	33.20	39.09	41.83	40.46	41.43
Median	30.71	28.99	24.98	28.70	38.16	42.38	40.41	40.41
Other countries with slower credit growth								
Egypt	25.89	30.22	23.72	25.89	30.53	31.54	31.04	31.56
Korea	30.83	36.60	29.77	33.19	25.96	21.13	23.54	23.54
Malawi	13.29	15.97	2.80	9.38	19.32	10.03	14.68	14.68
Mauritania	27.00	41.69	12.30	27.00	7.92	26.87	17.39	12.27
Mauritius	25.54	9.95	15.25	12.60	13.64	16.78	15.21	15.21
Morocco	21.88	24.62	19.14	21.88	15.51	13.15	14.33	14.56
Senegal	21.49	23.62	11.36	17.49	16.18	12.45	14.31	14.31
Sudan	30.31	22.89	35.26	29.08	28.52	35.34	31.93	31.88
Zambia	15.20	7.26	19.16	15.20	1.79	19.58	10.68	13.64
Average	23.49	23.65	18.75	21.30	17.71	20.77	19.23	19.07
Median	25.54	23.62	19.14	21.88	16.18	19.58	15.21	14.68
Others								
Bangladesh	19.25	21.10	24.35	22.73	18.89	27.08	22.98	22.98
Bolivia	28.40	38.25	13.84	26.04	35.24	119.38	77.31	77.31
Guyana	20.72	22.74	18.70	20.72	10.34	16.68	13.51	16.27
Jamaica	10.75	6.71	12.77	10.75	18.80	17.73	18.27	20.83
Kenya	22.27	20.87	30.37	25.62	8.20	13.41	10.80	9.94
Liberia	21.34	28.93	13.75	21.34	-20.07	24.05	1.99	1.99
Madagascar	17.08	17.95	21.96	19.96	20.20	4.39	12.30	12.30
Sri Lanka	21.35	7.34	35.36	21.35	31.82	27.50	29.66	27.48
Tanzania	18.70	20.37	14.82	17.59	30.77	22.35	26.56	23.88
Average	19.98	20.47	20.66	20.68	17.13	30.29	23.71	23.67
Median	20.72	20.87	18.70	21.34	18.89	22.35	18.27	20.83
All countries								
Average	24.21	24.79	22.33	23.64	22.13	29.07	27.24	25.73
Median	21.88	22.89	19.36	21.88	18.89	21.13	17.39	16.27

Sources: Data provided by the authorities; and staff estimates.

1/ Before and after initiation of adjustment.2/ Since 1973.3/ Until 1983.

Table XIV. Rate of Increase of Total Credit ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries which reduced the ratio of credit to GDP ^{4/}								
Costa Rica	33.69	25.08	32.99	29.03	19.29	20.41	19.85	19.85
Gabon	52.66	40.41	64.92	52.66	-3.57	5.88	1.16	3.81
Pakistan	24.14	23.75	20.85	22.30	18.16	18.95	18.55	18.55
Peru	43.52	30.09	56.94	43.52	45.19	71.00	58.10	69.29
Turkey	52.54	56.81	56.71	56.76	84.32	29.80	57.06	57.06
Average	41.31	35.23	46.48	40.85	32.68	29.21	30.94	33.71
Median	43.52	30.09	56.71	43.52	19.29	20.41	19.85	19.85
Other countries with slower credit growth ^{4/}								
Egypt	40.11	35.01	42.66	40.11	47.12	35.66	41.39	36.64
Korea	38.86	27.29	42.92	35.11	45.96	28.44	37.20	37.20
Malawi	30.83	19.36	36.95	28.16	34.57	29.29	31.93	31.93
Mauritania	41.35	39.06	43.64	41.35	8.05	28.26	18.16	20.38
Mauritius	27.29	34.59	22.64	28.62	24.71	23.12	23.92	23.92
Morocco	21.11	23.12	19.10	21.11	17.74	18.47	18.10	18.16
Senegal	31.62	27.69	31.55	29.62	34.40	23.98	29.19	29.19
Sudan	51.53	62.64	46.17	54.40	39.61	35.59	37.60	33.96
Zambia	45.40	9.49	63.36	45.40	36.37	22.99	29.68	35.53
Average	36.46	30.92	38.78	35.99	32.06	27.31	29.68	29.66
Median	38.86	27.69	42.66	35.11	34.57	28.26	29.68	31.93
Others								
Bangladesh	20.67	20.30	24.59	22.45	34.48	27.49	30.99	30.99
Bolivia	35.56	33.87	49.10	41.48	59.87	594.49	327.18	327.18
Guyana	28.79	7.16	50.42	28.79	26.72	52.22	39.47	48.88
Jamaica	26.17	13.74	32.38	26.17	27.97	39.99	33.98	37.24
Kenya	20.86	19.15	22.96	21.06	10.72	27.40	19.06	15.28
Liberia	35.75	17.63	53.86	35.75	10.77	59.48	35.13	35.13
Madagascar	27.41	17.59	44.63	31.11	48.16	25.88	37.02	37.02
Sri Lanka	21.77	15.50	28.05	21.77	26.51	59.09	42.80	38.18
Tanzania	29.89	26.35	21.70	24.03	38.34	26.41	32.38	29.71
Average	27.43	19.03	36.41	28.07	31.50	101.38	66.44	66.62
Median	27.41	17.63	32.38	26.17	27.97	39.99	35.13	37.02
All countries								
Average	33.98	27.20	39.53	33.95	31.98	56.71	44.34	45.01
Median	31.62	25.08	42.66	29.62	34.40	28.26	32.38	33.96

Sources: Data provided by the authorities; and staff estimates.

^{1/} Relative to initial money stock. Before and after initiation of adjustment.^{2/} Since 1973.^{3/} Until 1983.^{4/} Following initiation of adjustment.

Table XV. Rate of Increase of Credit to Government ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries which reduced the ratio of credit to GDP ^{4/}								
Costa Rica	6.78	3.29	13.07	8.18	10.47	-1.58	4.45	4.45
Gabon	10.87	-9.14	30.88	10.87	-2.68	-11.30	-6.99	-4.42
Pakistan	11.91	10.93	10.19	10.56	7.25	6.14	6.70	6.70
Peru	15.02	4.03	26.00	15.02	17.95	27.00	22.47	30.92
Turkey	27.72	30.82	26.83	28.82	28.27	0.52	14.40	14.40
Average	14.46	7.99	21.39	14.69	12.25	4.16	8.20	10.41
Median	11.91	4.03	26.00	10.87	10.47	0.52	6.70	6.70
Other countries with slower credit growth ^{4/}								
Egypt	26.26	18.27	30.25	26.26	36.86	19.41	28.13	21.75
Korea	2.41	-0.75	0.03	-0.36	6.04	0.96	3.50	3.50
Malawi	6.29	0.14	9.23	4.69	27.19	16.69	21.94	21.94
Mauritania	3.71	-10.78	18.19	3.71	-1.42	11.38	4.98	5.99
Mauritius	17.34	19.37	15.59	17.48	17.23	17.18	17.21	17.21
Morocco	11.82	12.44	11.20	11.82	12.46	11.46	11.96	11.68
Senegal	2.05	8.22	-1.51	3.35	8.25	14.49	11.37	11.37
Sudan	25.40	27.32	31.53	29.42	16.86	4.29	10.57	8.62
Zambia	27.60	-29.56	56.18	27.60	34.31	17.24	25.78	25.70
Average	13.65	4.96	18.96	13.77	17.53	12.57	15.05	14.20
Median	11.82	8.22	15.59	11.82	16.86	14.49	11.96	11.68
Others								
Bangladesh	13.28	15.04	11.84	13.44	18.74	8.58	13.66	13.66
Bolivia	0.65	-10.41	20.98	5.28	20.38	5.23	12.80	12.80
Guyana	22.67	-3.04	48.38	22.67	17.56	30.96	24.26	34.30
Jamaica	17.43	4.08	24.11	17.43	25.33	31.00	28.17	26.57
Kenya	6.12	7.11	4.36	5.73	1.69	18.30	10.00	6.27
Liberia	15.23	2.18	28.28	15.23	36.29	55.89	46.09	46.09
Madagascar	16.15	7.58	29.88	18.73	36.72	12.51	24.61	24.61
Sri Lanka	4.18	0.67	7.70	4.18	-1.52	30.13	14.30	12.74
Tanzania	15.03	19.73	6.06	12.90	34.05	20.68	27.36	24.76
Average	12.30	4.77	20.17	12.84	21.03	23.70	22.36	22.42
Median	15.03	4.08	20.98	13.44	20.38	20.68	24.26	24.61
All countries								
Average	13.30	5.55	19.97	13.61	17.75	15.09	16.42	16.59
Median	13.28	4.08	18.19	12.90	17.56	14.49	14.30	13.66

Sources: Data provided by the authorities; and staff estimates.

^{1/} Relative to initial money stock. Before and after initiation of adjustment.^{2/} Since 1973.^{3/} Until 1983.^{4/} Following initiation of adjustment.

Table XVa. Ratio of Government Credit to Total Domestic Credit

	All Years Before <u>1/</u>	Four Years Before			Four Years After			All Years After <u>2/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries which reduced the ratio of credit to GDP <u>3/</u>								
Costa Rica	12.72	10.24	20.06	15.15	31.30	19.98	25.64	25.64
Gabon	-6.07	-24.37	21.04	-1.66	14.76	8.28	11.52	4.52
Pakistan	49.39	49.21	49.50	49.36	47.18	43.75	45.46	45.46
Peru	28.48	22.68	33.94	28.31	36.52	38.34	37.43	38.38
Turkey	30.03	39.94	44.13	42.04	40.49	25.55	33.02	33.02
Average	22.91	19.54	33.73	26.64	34.05	27.18	30.61	29.40
Median	28.48	22.68	33.94	28.31	36.52	25.55	33.02	33.02
Other countries with slower credit growth <u>3/</u>								
Egypt	70.09	70.35	69.84	70.09	69.80	69.90	69.85	64.38
Korea	5.49	6.87	4.08	5.47	6.14	7.08	6.61	6.61
Malawi	24.81	24.06	22.12	23.09	32.70	43.42	38.06	38.06
Mauritania	-10.46	-21.40	0.65	-10.37	7.38	15.55	11.47	14.71
Mauritius	38.41	39.75	51.80	45.77	57.29	62.27	59.78	59.78
Morocco	51.17	51.15	52.01	51.58	58.21	59.13	58.67	58.61
Senegal	5.56	10.24	6.13	8.18	8.56	20.95	14.75	14.75
Sudan	42.56	38.08	50.76	44.42	47.96	38.70	43.33	40.61
Zambia	44.12	35.97	52.27	44.12	67.16	71.39	69.27	68.44
Average	30.20	28.34	34.41	31.37	39.47	43.15	41.31	40.66
Median	38.41	35.97	50.76	44.12	47.96	43.42	43.33	40.61
Others								
Bangladesh	76.23	80.23	70.31	75.27	62.06	56.25	59.15	59.15
Bolivia	14.89	-0.25	12.96	6.35	25.42	3.81	14.61	14.61
Guyana	56.03	40.44	71.92	56.18	72.41	68.59	70.50	71.47
Jamaica	28.85	21.53	36.16	28.85	55.88	61.34	58.61	60.16
Kenya	20.50	24.73	20.95	22.84	22.59	35.24	28.91	29.55
Liberia	18.92	11.36	30.88	21.12	58.46	70.27	64.37	64.37
Madagascar	19.48	21.59	38.39	29.99	55.75	55.70	55.73	55.73
Sri Lanka	43.91	41.79	41.59	41.69	19.62	37.01	28.32	31.67
Tanzania	38.55	44.40	42.67	43.53	59.31	66.13	62.72	63.93
Average	35.26	31.76	40.65	36.20	47.95	50.48	49.21	50.07
Median	28.85	24.73	38.39	29.99	55.88	56.25	58.61	59.15
All countries								
Average	30.59	27.77	36.70	32.23	41.61	42.55	42.08	41.90
Median	28.85	24.73	38.39	29.99	47.18	43.42	43.33	40.61

Sources: Data provided by the authorities; and staff estimates.

1/ Since 1973.2/ Until 1983.3/ Following initiation of adjustment.

Table XVI. Annual Average Changes in Nominal Effective Exchange Rates Before and After Initiation of Adjustment ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Countries with significant real depreciations ^{4/}								
Bangladesh	-11.8	-21.5	-4.7	-13.1	-2.2	-9.8	-6.0	-6.0
Jamaica	2.6	-0.3	<u>5/</u> 4.0	2.6	-24.2	-7.1	-15.6	-9.9
Mauritania	2.1	1.2	3.1	2.1	-7.2	9.2	1.0	3.1
Morocco	0.7	0.4	1.0	0.7	1.8	-2.0	-0.1	-0.1
Peru	-12.3	0.6	-25.2	-12.3	-39.3	-20.6	-30.0	-33.0
Senegal	1.5	0.4	2.1	1.3	-1.7	-1.2	-1.4	-1.4
Sri Lanka	-3.3	-2.5	-4.1	-3.3	-19.1	-4.6	-11.9	-7.6
Turkey	-15.2	-10.9	-32.7	-21.8	-35.4	-22.1	-28.8	-28.8
Zambia	1.2	5.2	<u>5/</u> -0.9	1.2	-10.3	-1.4	-5.9	-4.5
Average	-3.8	-3.1	-6.4	-4.7	-15.3	-6.6	-11.0	-9.8
Median	0.7	0.4	-0.9	0.7	-10.3	-4.6	-6.0	-6.0
Countries with significant real appreciations ^{4/}								
Bolivia	7.6	15.1	2.0	8.6	4.7	-52.8	-24.1	-24.1
Guyana	-1.0	-3.0	1.0	-1.0	-3.3	-0.7	-2.0	0.5
Liberia	-1.4	3.0	-5.9	-1.4	2.6	11.6	7.1	7.1
Madagascar	-0.6	-3.1	0.2	-1.5	-3.0	-10.6	-6.8	-6.8
Tanzania	-1.8	-3.7	-0.9	-2.3	-4.5	9.0	2.3	0.6
Average	0.6	1.6	-0.7	0.4	-0.7	-8.7	-4.7	-4.5
Median	-1.0	-3.0	0.2	-1.4	-3.0	-0.7	-2.0	0.5
Others								
Costa Rica	-4.1	1.8	-2.7	-0.5	-25.6	-23.2	-24.4	-24.4
Gabon	—	1.1	-1.1	—	1.2	-1.4	-0.1	-0.8
Kenya	-1.9	-2.0	-1.7	-1.9	-1.3	-5.1	-3.2	-4.0
Korea	-3.7	0.6	-4.1	-1.7	-12.5	-0.1	-6.3	-6.3
Malawi	0.7	2.5	-0.9	0.8	1.4	-5.1	-1.9	-1.9
Mauritius	-1.2	-1.0	-1.1	-1.0	-12.4	-2.0	-7.2	-7.2
Pakistan	-0.4	4.3	-5.6	-0.7	3.3	-0.1	1.6	1.6
Sudan	2.4	4.3	0.5	2.4	-15.9	-4.5	-10.2	-13.5
Average	-1.0	1.4	-2.1	-0.3	-7.7	-5.2	-6.5	-7.1
Median	-0.8	1.4	-1.4	-0.6	-6.9	-3.3	-4.8	-5.1
All countries								
Average	-1.8	-0.4	-3.5	-2.8	-9.2	-6.6	-7.9	-7.6
Median	-0.8	0.5	-1.0	-0.9	-3.9	-3.3	-5.9	-5.3

Source: Information notice system.

^{1/} An increase represents an appreciation.^{2/} Since 1973.^{3/} Until 1983.

^{4/} Following the initiation of adjustment. Cases in which the real effective exchange rate depreciated or appreciated by at least 10 percent on a cumulative basis during the four years following the initiation of adjustment. Mauritania and Peru are also included in the first group. In the case of Peru, a large depreciation was introduced in the last quarter of 1977, immediately before the "initial" adjustment year, 1978. In the case of Mauritania, the real effective depreciation was reversed in the fourth year following the initiation of adjustment.

^{5/} One year only. In these cases the period before covers only three years.

Table XVII. External Current Account Balance as Percentage of Exports of Goods and Services ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	-16.21	-2.60	-14.00	-8.30	-20.56	-7.45	-14.00	-14.00
Mauritius	-10.96	-16.24	-29.16	-22.70	-27.12	-9.36	-18.24	-18.24
Pakistan	-57.14	-53.63	-44.29	-48.96	-37.95	-21.65	-29.80	-29.80
Average	-28.10	-24.16	-29.15	-26.66	-28.54	-12.82	-20.68	-20.68
Small payments deficit, high inflation								
Egypt	-56.20	-47.41	-65.00	-57.20	-21.92	-11.48	-16.70	-16.74
Gabon	-2.79	5.03	-4.58	0.23	6.41	15.77	11.09	9.67
Kenya	-24.59	-19.54	-24.36	-21.95	-41.28	-36.58	-38.93	-34.91
Peru	-53.98	-65.66	-58.31	-61.98	2.14	-24.93	-11.40	-19.40
Turkey	-65.96	-127.00	-58.82	-92.91	-70.27	-24.22	-47.24	-47.24
Average	-40.70	-50.92	-42.21	-46.56	-24.99	-16.29	-20.64	-21.72
Median	-53.98	-47.41	-58.31	-56.20	-21.92	-24.22	-16.70	-19.40
Large payments deficit, low inflation								
Bangladesh	-139.20	-142.67	-120.24	-131.45	-138.21	-144.60	-141.41	-141.41
Jamaica	-25.76	-22.44	-29.07	-25.76	-6.75	-12.43	-9.59	-16.90
Liberia	-21.16	-24.08	-33.57	-28.82	-25.29	-41.32	-33.31	-33.31
Mauritania	-71.74	-42.93	-125.49	-84.21	-102.42	-79.69	-91.06	-92.00
Morocco	-39.10	-9.19	-90.97	-50.08	-60.51	-52.13	-56.32	-54.87
Sri Lanka	-14.03	-30.10	-0.53	-15.32	-22.19	-51.60	-36.90	-41.47
Average	-51.83	-45.23	-66.65	-55.94	-59.23	-63.63	-61.43	-63.33
Median	-32.43	-27.09	-62.27	-39.45	-42.90	-51.87	-46.61	-48.17
Large payments deficit, high inflation								
Bolivia	-18.82	-15.28	-47.78	-31.53	-28.35	-16.85	-22.60	-22.60
Costa Rica	-35.46	-25.74	-42.96	-34.35	-44.74	-28.99	-36.87	-36.87
Guyana	-25.50	-3.32	-40.69	-22.00	-17.44	-37.07	-27.25	-38.33
Madagascar	-42.17	-25.93	-73.87	-49.90	-122.57	-92.55	-107.56	-107.56
Malawi	-44.32	-29.28	-81.64	-55.46	-54.48	-45.17	-49.82	-49.82
Senegal	-32.36	-21.51	-41.70	-31.61	-63.64	-48.89	-56.27	-56.27
Sudan	-42.70	-58.42	-40.53	-49.47	-91.70	-130.77	-111.24	-103.83
Tanzania	-51.62	-38.85	-66.64	-52.75	-86.66	-93.69	-90.17	-88.16
Zambia	-21.08	4.99	-47.16	-21.08	-30.27	-12.54	-21.40	-36.54
Average	-34.89	-23.71	-53.66	-38.68	-59.98	-56.28	-58.13	-60.00
Median	-35.46	-25.74	-47.16	-34.35	-54.48	-45.17	-49.82	-49.82
All countries								
Average	-39.69	-35.30	-51.36	-43.37	-48.08	-43.83	-45.96	-47.42
Median	-35.46	-25.74	-44.29	-34.35	-37.95	-36.58	-36.87	-36.87
Memorandum items:								
All non-oil devel- oping countries								
Average	-18.9	-19.9	-17.6	-18.8	-19.7	-18.7	-19.2	-18.7
Median	-24.6	-24.2	-27.1	-25.7	-33.6	-36.2	-34.9	-35.3

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{2/} Since 1973.

^{3/} Until 1983.

Table XVIII. Residual External Current Balance as Percentage of Exports of Goods and Services ^{1/}

	All	Four Years Before			Four Years After			All
	Years	First	Second	Total	First	Second	Total	Years
	Before	half	half		half	half		After
	<u>2/</u>							<u>3/</u>
(In percent)								
Small payments deficit, low inflation								
Korea	4.03	15.28	-0.59	7.34	12.85	30.88	21.86	21.86
Mauritius	-4.14	-6.89	-12.41	-9.65	2.44	17.40	9.92	9.92
Pakistan	-23.93	-9.66	-26.49	-18.08	15.09	34.20	24.65	24.65
Average	-8.01	-0.42	-13.17	-6.79	10.12	27.50	18.81	18.81
Small payments deficit, high inflation								
Egypt	...	...	...	...	...	...	...	...
Gabon	-52.30	-47.91	-60.60	-54.25	-43.79	-38.67	-41.23	-46.46
Kenya	-7.65	10.77	-19.32	-4.28	-19.50	4.45	-7.52	-3.51
Peru	-25.25	-39.37	-18.91	-29.14	12.60	-27.34	-7.37	-10.80
Turkey	-10.95	-64.74	13.38	-25.68	43.00	45.82	44.41	44.41
Average	-24.04	-35.31	-21.36	-28.34	-1.92	-3.93	-2.93	-4.09
Median	-18.10	-43.64	-19.11	-27.41	-3.45	-11.44	-7.45	-7.15
Large payments deficit, low inflation								
Bangladesh	-102.53	-88.48	-96.88	-92.68	-77.56	-79.33	-78.44	-78.44
Jamaica	5.27	14.59	-4.04	5.27	21.84	25.65	23.75	21.63
Liberia	11.54	-7.83	-6.76	-7.30	8.60	19.03	13.82	13.82
Mauritania	-53.95	-30.12	-103.09	-66.61	-54.45	-50.66	-52.56	-57.89
Morocco	-18.05	5.60	-63.76	-29.08	-44.16	-11.12	-27.64	-10.97
Sri Lanka	13.39	23.98	16.09	20.04	-35.95	-23.65	-29.80	-19.48
Average	-24.05	-13.71	-43.09	-28.39	-30.28	-20.01	-25.15	-21.89
Median	-6.39	-1.11	-35.26	-18.19	-40.05	-17.39	-28.72	-15.23
Large payments deficit, high inflation								
Bolivia	-25.57	-20.11	-38.91	-29.51	-7.87	40.37	16.25	16.25
Costa Rica	-17.92	-23.48	-31.79	-27.63	-12.16	37.05	12.44	12.44
Guyana	-4.62	0.40	-19.00	-9.30	10.52	-1.51	4.50	13.20
Madagascar	-27.22	-17.38	-43.13	-30.25	-64.27	-33.31	-48.79	-48.79
Malawi	-25.63	-20.17	-56.57	-38.37	-16.56	0.69	-7.94	-7.94
Senegal	-16.43	-7.45	-20.92	-14.19	-17.64	-16.37	-17.00	-17.00
Sudan	-36.93	-35.96	-28.08	-32.02	-38.37	-45.61	-41.99	-39.17
Tanzania	-38.74	-9.86	-82.78	-46.32	-56.84	-41.84	-49.34	-43.40
Zambia	-3.24	-4.11	-2.38	-3.24	8.33	-2.89	2.72	-5.51
Average	-21.81	-15.35	-35.95	-25.65	-21.65	-7.05	-14.35	-13.33
Median	-25.57	-17.38	-31.79	-29.51	-16.56	-2.89	-7.94	-7.94
All countries								
Average	-20.94	-16.49	-32.13	-24.31	-16.08	-5.31	-10.70	-9.60
Median	-17.98	-9.76	-23.71	-26.65	-14.36	-2.20	-7.45	-6.72

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years. The residual external current balance excludes payments balances in respect of energy trade, investment income, temporary fluctuations in terms of trade and foreign demand, and short-term disruptions (see Appendix E).

^{2/} Since 1973.^{3/} Until 1983.

Table XIX. External Current Account Balance as Percentage of GDP ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	-4.75	-0.86	-4.38	-2.62	-7.75	-2.93	-5.34	-5.34
Mauritius	-4.79	-7.98	-12.56	-10.27	-12.61	-4.39	-8.50	-8.50
Pakistan	-6.41	-5.12	-5.21	-5.17	-4.20	-2.52	-3.36	-3.36
Average	-5.32	-4.65	-7.38	-6.02	-8.19	-3.28	-5.73	-5.73
Small payments deficit, high inflation								
Egypt	-11.07	-9.08	-13.06	-11.07	-4.86	-7.33	-6.10	-6.08
Gabon	-1.31	3.42	-2.15	0.63	4.23	10.64	7.43	6.49
Kenya	-7.58	-6.20	-7.30	-6.75	-11.85	-9.74	-10.80	-9.55
Peru	-7.61	-8.99	-8.47	-8.73	1.05	-5.42	-2.18	-4.03
Turkey	-3.42	-6.74	-2.91	-4.82	-5.29	-3.35	-4.32	-4.32
Average	-6.20	-5.52	-6.78	-6.15	-3.35	-3.04	-3.19	-3.50
Median	-7.58	-6.74	-7.30	-6.75	-4.86	-5.42	-4.32	-4.32
Large payments deficit, low inflation								
Bangladesh	-7.80	-8.73	-7.80	-8.27	-10.61	-10.75	-10.68	-10.68
Jamaica	-9.00	-7.90	-10.10	-9.00	-2.63	-6.44	-4.54	-7.64
Liberia	-11.70	-13.33	-17.62	-15.47	-13.28	-17.35	-15.31	-15.31
Mauritania	-29.45	-19.99	-48.01	-34.00	-38.09	-37.02	-37.56	-40.58
Morocco	-6.95	-1.84	-16.05	-8.94	-10.19	-10.41	-10.30	-10.37
Sri Lanka	-2.22	-4.94	0.05	-2.45	-7.78	-16.71	-12.24	-12.79
Average	-11.19	-9.46	-16.59	-13.02	-13.76	-16.45	-15.10	-16.23
Median	-8.40	-8.32	-13.07	-8.97	-10.40	-13.73	-11.46	-11.73
Large payments deficit, high inflation								
Bolivia	-3.53	-3.43	-9.05	-6.24	-4.58	-2.56	-3.57	-3.57
Costa Rica	-10.64	-7.91	-12.11	-10.01	-14.95	-11.33	-13.13	-13.13
Guyana	-15.49	-2.38	-26.21	-14.30	-10.69	-24.75	-17.72	-22.37
Madagascar	-7.78	-5.02	-12.99	-9.00	-17.56	-12.04	-14.80	-14.80
Malawi	-12.65	-8.68	-20.59	-14.64	-15.45	-9.90	-12.67	-12.67
Senegal	-11.25	-8.55	-13.49	-11.02	-20.66	-16.19	-18.43	-18.43
Sudan	-4.39	-6.27	-3.72	-5.00	-7.98	-10.98	-9.48	-9.44
Tanzania	-9.60	-7.61	-10.06	-8.84	-12.43	-10.75	-11.59	-11.59
Zambia	-7.41	2.46	-17.28	-7.41	-10.83	-4.48	-7.66	-11.22
Average	-9.19	-5.27	-13.94	-9.61	-12.79	-11.44	-12.12	-13.03
Median	-9.60	-6.27	-12.99	-9.00	-12.43	-10.98	-12.67	-12.67
All countries								
Average	-8.56	-6.33	-12.22	-9.28	-10.39	-9.86	-10.12	-10.84
Median	-7.61	-6.74	-10.10	-8.84	-10.61	-9.90	-10.30	-10.37

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{2/} Since 1973.^{3/} Until 1983.

Table XX. Trade Balance at Constant Prices as Percentage of Real GDP ^{1/}

	All Years Before <u>2/</u>	Four Years Before			Four Years After			All Years After <u>3/</u>
		First half	Second half	Total	First half	Second half	Total	
(In percent)								
Small payments deficit, low inflation								
Korea	-10.95	-6.40	-15.03	-10.71	-9.23	-5.38	-7.31	-7.31
Mauritius	10.69	8.06	11.03	9.54	14.68	22.01	18.34	18.34
Pakistan	-9.97	-11.00	-12.42	-11.71	-11.00	-10.22	-10.61	-10.61
Average	-3.41	-3.11	-5.47	-4.29	-1.85	2.14	0.14	0.14
Small payments deficit, high inflation								
Egypt	...	...	...	...	...	...	...	...
Gabon	28.87	27.96	22.00	24.98	34.79	23.73	29.26	26.28
Kenya	-9.38	-5.50	-10.26	-7.88	-8.30	-3.62	-5.96	-4.88
Peru	-5.31	-7.86	-3.81	-5.83	4.93	-1.43	1.75	1.45
Turkey	-5.84	-7.43	-2.92	-5.18	-1.47	1.20	-0.13	-0.13
Average	2.09	1.80	1.25	1.52	7.49	4.97	6.23	5.68
Median	-5.58	-6.46	-3.37	-5.51	1.73	-0.11	0.81	0.66
Large payments deficit, low inflation								
Bangladesh	-7.30	-5.55	-6.57	-6.06	-8.40	-7.77	-8.08	-8.08
Jamaica	-2.16	0.10	-4.42	-2.16	3.02	-1.31	0.86	-0.66
Liberia	16.24	4.65	10.94	7.80	21.59	17.34	19.46	19.46
Mauritania	-10.83	0.50	-30.59	-15.05	-26.37	-16.14	-21.25	-22.64
Morocco	-5.09	-2.91	-13.75	-8.33	-12.74	-9.98	-11.36	-9.59
Sri Lanka	-6.01	-2.89	-8.40	-5.64	-20.56	-24.22	-22.39	-22.64
Average	-2.52	-1.02	-8.80	-4.91	-7.24	-7.01	-7.13	-7.36
Median	-5.55	-1.39	-7.48	-5.85	-10.57	-8.87	-9.72	-8.83
Large payments deficit, high inflation								
Bolivia	-0.50	-0.87	-5.90	-3.39	-2.46	1.63	-0.42	-0.42
Costa Rica	-11.43	-12.76	-14.60	-13.68	-8.38	11.60	1.61	1.61
Guyana	10.10	12.09	4.80	8.45	17.67	15.66	16.67	20.01
Madagascar	0.97	1.23	-1.82	-0.30	-4.72	0.04	-2.34	-2.34
Malawi	-6.08	-2.22	-1.73	-1.97	6.99	8.06	7.53	7.53
Senegal	-9.75	-4.87	-14.35	-9.61	-11.39	-6.48	-8.94	-8.94
Sudan	-3.49	-4.86	-4.12	-4.49	-2.21	-3.04	-2.63	-2.44
Tanzania	-15.68	-13.24	-18.35	-15.79	-15.11	-10.81	-12.96	-12.96
Zambia	-0.69	-3.98	2.61	-0.69	7.69	11.10	9.39	8.80
Average	-4.06	-3.27	-5.94	-4.61	-1.33	3.08	0.88	1.21
Median	-3.49	-3.98	-4.12	-3.39	-2.46	1.63	-0.42	-0.42
All countries								
Average	-2.44	-1.71	-5.35	-3.53	-1.41	0.54	-0.43	-0.46
Median	-5.58	-3.45	-5.16	-5.41	-3.59	-1.37	-1.38	-1.50

Sources: Data provided by the authorities; and staff estimates.

^{1/} Before and after initiation of adjustment. Countries with a rate of inflation lower than the median for all non-oil developing countries in 1982-83 are grouped as low inflation countries while countries with external current account deficits in 1983 within 5 percent of levels considered sustainable in their circumstances are grouped as countries with small payments deficits. Bolivia was classified in the group with large payments deficits despite a small current account deficit in 1983 since the latter reflected a substantial compression of imports due to the reduced availability of foreign loans and the rationing of foreign currency. The relatively high rates of inflation experienced by certain sample countries in recent years reflected corrective price adjustments under Fund-supported programs and are expected to be reduced substantially in the next few years.

^{2/} Since 1973.^{3/} Until 1983.

Characteristics of Sample Countries and Other Members
Borrowing from the Fund, 1977-1980

Broadly speaking, the 25 countries in the sample faced economic problems similar to those of the broader set of countries that made use of Fund resources during the period 1977-1980. Acute balance of payments problems were experienced by 68 percent of the sample countries; almost all of the remaining countries in the sample experienced at least moderate balance of payments difficulties. In comparison, balance of payments problems were considered acute in 84 percent of all programs supported by use of Fund resources in 1977-1980. ^{1/} Acute problems originated from a weak performance in both the current and capital accounts. Half of the countries in the sample suffered from a contraction of exports, while nearly two thirds experienced a sharp increase in imports. In about 20 percent of the cases, acute problems originated from a weakening performance of services or transfers. Developments on capital account were a source of acute problems in about half of the countries in the sample. Similar percentages for all programs supported by Fund resources in the upper credit tranches under stand-by or extended arrangements during the period 1977-1980 were 35 percent with acute problems related to exports, 58 percent experiencing a sharp increase in imports, and 29 percent with acute problems associated with the performance of the capital account.

Inflation was considered at least a moderate problem in about the same proportion (slightly over 70 percent) of sample countries as in the full set of Fund-supported programs in 1977-1980. The performance of growth and employment was also a problem in 72 percent of the sample countries (in 44 percent the problem was acute). Similarly, there was a persistent problem of slow growth or low employment in 40 percent of the programs approved in 1977-1980, while at least a moderate slowdown of growth had been experienced in 23 percent.

Problems associated with saving and investment were also similar. The low level of saving constituted an acute problem in 60 percent of countries in the sample and a moderate problem in an additional 32 percent. Corresponding ratios for all Fund-supported programs during the period 1977-1980 were 53 percent and 37 percent, respectively. The level or quality of investment were considered acute problems in 36 percent of the countries in the sample and a moderate problem in 44 percent compared to, respectively, 40 percent and 28 percent in the case of all Fund-supported programs during 1977-1980.

^{1/} Comparisons to the characteristics of all users of Fund resources under stand-by or extended arrangements during the period 1977-1980 are based on such characteristics reported in earlier annual reviews and thus frequently include the characteristics (possibly changing) of each country more than once, in fact each country being included as many times as there were programs for use of Fund resources in the upper credit tranches or under the extended Fund facility.

As regards the main factors responsible for these problems, both demand-management policies and policies resulting in cost-price distortions were considered a primary or secondary source in a wide majority of cases, both for countries in the sample and in the broader set of Fund-supported programs during the period 1977-1980. Demand-management policies were considered at least a secondary source of prevailing problems in more than 90 percent of cases, both for countries in the sample and in the broader set of all Fund-supported programs during the period 1977-1980. While the proportion of cases for which expansionary demand policies were a primary source of prevailing problems was somewhat higher in sample countries, this probably reflected, at least in part, the greater severity of problems in some cases at the time when adjustment was initiated than in later years.

Policies resulting in cost-price distortions were a primary source of prevailing problems in 70-80 percent of cases, both for countries in the sample and in the broader set of Fund-supported programs. Exchange rate policy was a primary source of problems in about half the cases, while other policies resulting in cost-price distortions were a primary source of problems in about two thirds of the cases. The specific sources of such cost-price distortions, however, differed somewhat between the sample and the broader set of programs, the relative contribution of wage policies and exchange or trade restrictions being somewhat greater in the case of sample countries.

Table XXI. Characteristics of Economic Problems in Sample and Other Countries with Stand-By or Extended Arrangements in 1977-1980 ^{1/}

	1977-1980		Sample Countries	
	Totals (62 programs)		(25 countries)	
	Acute	Moderate	Acute	Moderate
<u>Number of programs or countries</u>				
Balance of payments	52	...	17	7
Current account	...	...	17	7
Exports	22	26	13	7
Imports	36	19	16	5
Invisibles	...	...	5	7
Capital account	18	12	12	9
Growth/employment	...	...	11	7
Temporary slowdown	6	8	...	...
Persistent problem	20	11	...	...
Investment	...	...	9	11
Decline	13	8	...	...
Quality	12	9	...	...
Savings	27	19	15	8
Inflation	... ^{2/}	44	... ^{2/}	18
<u>Percent of total</u>				
Balance of payments	84	...	68	28
Current account	...	...	68	28
Exports	35	42	52	28
Imports	58	31	64	20
Invisibles	...	...	20	28
Capital account	29	19	48	36
Growth/employment	...	...	44	28
Temporary slowdown	10	13		
Persistent problem	32	18		
Investment	...	...	36	44
Decline	21	13	...	...
Quality	19	15	...	...
Savings	53	37	60	32
Inflation	... ^{2/}	71	... ^{2/}	72

Sources: Executive Board papers; and staff assessments.

^{1/} Subtotals may not add to totals in each category, as some countries have experienced more than one problem in each category.

^{2/} Included with moderate.

Table XXII. Policies Considered Sources of Economic Problems in Sample and Other Countries with Stand-By or Extended Arrangements, 1977-1980

	1977-1980		Sample Countries	
	Totals		(25 countries)	
	Primary	Secondary	Primary	Secondary
<u>Number of programs or countries</u>				
Demand-management	47	11	23	1
Credit policies	28	11	12	13
Public sector policies	35	6	23	1
Revenue <u>1/</u>	15	19	9	9
Expenditure <u>1/</u>	31	8	19	4
Public enterprises	17	12	11	6
Investment program	...	...	13	11
Cost-price distortions	45	22	20	4
Exchange rate	28	11	11	7
Other	42	23	16	7
Administered prices	25	8	14	4
Wages	11	11	8	9
Interest rates	11	22	3	17
External restrictions	17	7	13	5
Other structural policies	...	...	11	6
<u>Percent of total</u>				
Demand-management	76	18	92	4
Credit policies	55	22	48	52
Public sector policies	69	12	92	4
Revenue <u>1/</u>	29	37	36	36
Expenditure <u>1/</u>	61	16	76	16
Public enterprises	33	24	44	24
Investment program	...	...	52	44
Cost-price distortions	73	35	80	16
Exchange rate	45	18	44	28
Other	68	37	64	28
Administered prices	49	16	56	16
Wages	22	22	32	36
Interest rates	22	43	12	68
External restrictions	33	14	52	20
Other structural policies	...	...	44	24

Sources: Executive Board papers; and staff assessments.

1/ For the broader group of Fund-supported programs during the period 1977-1980, all cases experiencing problems (major or minor) with central/general government revenue or expenditures are included, some of which may not have resulted in expansionary demand policies.

Aggregative Overview of Fund Lending Under Credit Tranche Policies and the Extended Fund Facility, 1960-1983

The purpose of this Appendix is to examine the historical incidence of use of Fund resources so as to provide perspective for the more recent period covered in the present study. For this purpose, the period 1960-1983 was selected. Various indicators of Fund lending activities can be used for this purpose: the value of gross or net purchases by members, the number of stand-by or extended arrangements approved, and the number of economic and financial programs, either under stand-by or extended arrangements or in support of requests for outright purchases.

The advent of multiyear arrangements since the mid-1970s, either under the extended Fund facility or in the form of multiyear stand-by arrangements, means that, in recent years, the number of economic and financial programs exceeded the number of arrangements and outright purchases. Also, a distinction could be drawn between arrangements (or programs) for purchases in the first and upper credit tranches and between arrangements with and without purchases. The latter, less frequent in recent years, comprise mainly precautionary arrangements under which no purchases were intended during the period of the arrangement.

None of the above indicators is clearly superior and the choice of indicator depends essentially on the purpose of the study. Particular attention was paid in the present study to the experience with upper credit tranche uses under stand-by or extended arrangements or in the form of outright purchases. The number of arrangements approved as well as the number of economic and financial programs, including programs for purchases in the first credit tranche and programs under which no purchases took place, are also examined, although less extensively. 1/

The level of Fund lending activity has fluctuated widely during the 1960s and 1970s. The Fund approved 518 stand-by and extended arrangements over the period 1960-1983, 408 of which were for purchases in the upper credit tranches or under extended arrangements; in addition, there were 68 outright purchases not associated with stand-by or extended arrangements (and thus not otherwise counted), of which 14 involved the upper credit tranches. 2/ The number of upper credit tranche stand-by and extended arrangements and outright purchases

1/ An aggregative analysis of Fund lending activities, focused on gross and net purchases by members, and detailed data on transactions by individual members is presented in Supplement on Fund Accounts, IFS, Supplement Series No. 3, 1982.

2/ During the more recent period, purchases in the upper credit tranches were generally made under stand-by arrangements. Exceptions were limited for the most part to cases involving natural disasters. In the earlier period, outright purchases in the upper credit tranches in cases not involving natural disasters were more frequent.

approved on an annual basis ranged from 22 to 26 per year over the period 1965-69, then fell steadily to a low of 6 in 1974 (Table XXIII). Since 1980, however, the number increased again to more than 20 per year, rising to a high of 34 in 1983.

The evolution of the total number of arrangements and outright purchases, including first credit tranche purchases, is similar although the decline in the mid-1970s is much less striking, reflecting a larger than usual number of first credit tranche uses during that period. This latter development was due, in part, to the fact that some members that had not otherwise used Fund resources requested first credit tranche uses concurrently with requests for drawings under the oil facilities or disbursements under the Trust Fund.

To some extent, comparisons based on the number of arrangements and outright purchases understate the incidence of use of Fund resources in recent years relative to earlier years. This is because, first, due to the introduction of multiyear arrangements involving two or three annual programs, the number of economic and financial programs under upper credit tranche stand-by or extended arrangements (or associated with outright purchases) rose more sharply during the late 1970s and early 1980s than the number of arrangements. ^{1/} The number of economic and financial programs during the period 1980-82 exceeded 30 per year, rising to 43 in 1983, compared to about 25 per year during the earlier peak period in the late 1960s. Second, it may be desirable to exclude "precautionary" arrangements, which were more prevalent in the earlier period. For present purposes, the concept of nonprecautionary arrangements was approximated by excluding those arrangements under which members did not draw over the duration of the arrangement. ^{2/} In each of the years 1966-69, there were about 20 economic and financial programs supported by outright purchases or stand-by arrangements under which some purchases were made; this represented the peak for the 1960-1975 period. The number of such programs grew rapidly subsequently, to more than 30 per year during the period 1980-82, and 43 in 1983.

The indicators of incidence of use of Fund resources in the credit tranches or under extended arrangements reviewed above show the same general pattern: a period of relatively large use during the second half of the 1960s, followed by a period of sharply reduced activity through the mid-1970s and, more recently, a resurgence of the use of

^{1/} For example, an extended arrangement covering three years typically involves the presentation to the Board of three one-year economic programs as opposed to only one under a one-year stand-by arrangement.

^{2/} Such a definition has the benefit of excluding arrangements under which no repurchase obligations were incurred. It fails to correspond to the concept of precautionary arrangements when (i) the initial purchase was not made because of problems with performance rather than lack of need, and (ii) the initial purchase or purchases were not made due to lack of need while later purchases were desired but not made due to problems with performance.

Fund resources. The number of programs under upper credit tranche stand-by and extended arrangements with purchases approved in 1983 was twice as high as in the earlier peak period in the late 1960s. In part this higher incidence in recent years reflects the increase in Fund membership during the intervening period: the proportion of members with Fund-supported programs for purchases in the upper credit tranches or under the extended Fund facility (excluding programs without purchases) during the period 1980-82 was similar to that in the late 1960s. In 1983, however, this proportion rose to 29 percent of members, compared to 20 percent in the late 1960s.

The incidence of resource use has varied widely not only over time but also between members, with some members making frequent and substantial use of resources in the credit tranches or under the extended Fund facility and others little or no use of such resources. Between 1960 and 1983, 86 members had one or more programs supported by outright purchases or by upper credit tranche stand-by or extended arrangements under which some purchases were made while 60 members did not use Fund resources in the upper credit tranches or under the extended Fund facility. Of the members that entered into upper credit tranche stand-by or extended arrangements under which purchases were made or that made outright purchases in the upper credit tranches, 63 members (73 percent) entered into from one to six programs while 23 members entered into seven or more programs (Table XXIV). This latter group accounted for 47 percent of the total number of programs supported by upper credit tranche stand-by or extended arrangements and outright purchases over the 1960-1983 period.

Reflecting this concentration of Fund programs, some members have had programs with the Fund over a relatively high portion of the years during which they were Fund members. Table XXV shows that, excluding members with less than 10 years of membership, 39 members had had programs supported by use of Fund resources in the upper credit tranches or under the extended Fund facility in at least 1 of every 5 years of membership since 1960; of these, 9 members have had programs in at least 2 of every 5 years, and of these, 3 members in more than half of the years during which they were members. The 20 members with programs in more than 30 percent of the years during which they have been members since 1960 are listed in Table XXVI. Turkey (62.5 percent), Liberia (54.5 percent), and Haiti (54.2 percent) are the three members that have had programs with purchases in over half of their years of membership.

A similar concentration appears in the distribution of the gross use of Fund resources under the credit tranche or the extended Fund facility by individual members. While there clearly is a correlation between the number of arrangements and the amount of gross purchases, it is an imperfect one since arrangements have varied widely in the size of resource use envisaged as well as the amounts actually purchased. Table XXVII shows that, including purchases in the first credit tranche, 81 members have made either no use of Fund resources in the credit tranches or under the extended Fund facility or have made cumulative

purchases 1/ since 1960 equivalent to less than 100 percent of quota. Some 59 members have made cumulative purchases of between 100 and 500 percent of quota, and 6 members have made cumulative purchases equivalent to between 500 and 900 percent of quota. Table XXVIII shows the 30 members with the largest cumulative use. Turkey (886 percent), Yugoslavia (728 percent), Sudan (694 percent), Jamaica (653 percent), Philippines (571 percent), and Korea (536 percent) are the six members with cumulative purchases in excess of 500 percent of quota.

1/ In order to make amounts purchased in earlier years more comparable to amounts purchased recently, purchases were normalized by the members' quota in the month in which each purchase took place.

Table XXIII. Arrangements, Outright Purchases, and Economic and Financial Programs, 1960-1983

	Number of Arrangements and Outright Purchases <u>1/</u>	Number of Arrangements and Outright Purchases on Upper Credit Tranche Terms <u>1/</u>	Number of Programs for Use on Upper Credit Tranche		Percent of Membership Entering Programs with Purchases on Upper Credit Tranche Terms
			Total	Terms <u>2/</u> With purchases <u>3/</u>	
1960	17	14	14	10	14.7
1961	25	23	23	18	24.3
1962	22	16	16	13	16.0
1963	18	15	15	11	10.9
1964	23	17	17	14	13.9
1965	26	22	22	16	15.5
1966	29	26	26	21	20.0
1967	28	24	24	21	19.6
1968	29	24	24	22	19.8
1969	36	25	25	21	18.3
1970	22	15	15	11	9.4
1971	18	10	10	6	5.0
1972	19	9	9	6	4.8
1973	17	8	8	6	4.8
1974	19	6	6	6	4.8
1975	23	9	9	7	5.5
1976	19	6	7	7	5.4
1977	27	12	13	12	9.1
1978	19	11	15	13	9.4
1979	32	22	24	22	15.6
1980	30	24	31	30	21.1
1981	33	27	32	31	21.5
1982	24	23	32	30	20.5
1983	34	34	43	43	29.4

Sources: Supplement on Fund Accounts, IFS Supplement No.3; and Transactions of the Fund.

1/ The terminology "upper credit tranche terms" was used for simplicity to refer to use of Fund resources in the credit tranches and under the extended Fund facility.

2/ Under stand-by and extended arrangements or in the form of outright purchases. In the case of multiyear arrangements, more than one economic and financial program is submitted for Board approval.

3/ Excludes programs covered by arrangements under which no purchases were made.

Table XXIV. Number of Arrangements, Outright Purchases, and Programs for Use on Upper Credit Tranche Terms by Individual Members, 1960-1983

	Upper Credit Tranche Terms Arrangements or Outright Purchases <u>1/</u>	Programs For Use on Upper Credit Tranche Terms <u>1/</u>	
		Total	With purchases <u>2/</u>
(Number of members)			
Number of arrangements or programs since 1960			
0	57	57	60
1	20	18	19
2	14	12	10
3-4	19	18	20
5-6	10	11	14
7-8	9	11	11
9-10	9	10	6
11 or more	8	9	6

Sources: Supplement on Fund Accounts, IFS Supplement No.3; and Transactions of the Fund.

1/ The terminology "upper credit tranche terms" was used for simplicity to refer to use of Fund resources in the credit tranches and under the extended Fund facility.

2/ Excludes arrangements under which no purchases were made.

Table XXV. Percent of Years of Membership Since 1960 During Which Members had Arrangements and Programs 1/2/

		Upper Credit Tranche Terms Arrangements or Outright Purchases <u>3/</u>	Programs for Use on Upper Credit Tranche Terms	
			Total	With purchases <u>3/</u>
(Number of members)				
Greater than:	Less than or equal to:			
0	10 percent	29	24	23
10	20 percent	12	14	18
20	30 percent	17	15	19
30	40 percent	12	13	11
40	50 percent	10	12	6
50	60 percent	3	2	2
60		—	3	1

Sources: Supplement on Fund Accounts, IFS Supplement No.3; and Transactions of the Fund.

1/ Covers arrangements or programs over the period 1960-1983 and years of membership since 1960. The terminology "upper credit tranche terms" was used for simplicity to refer to use of Fund resources in the credit tranches and under the extended Fund facility.

2/ Excludes countries that joined the Fund after 1974.

3/ Excludes arrangements under which no purchases were made.

Table XXVI. Twenty Members with Highest Portion of Years of Membership in Which Programs Supported by Upper Credit Tranche Terms Arrangements or Outright Purchases were Approved, 1960-1983 1/

Total		With purchases <u>2/</u>	
Turkey	66.6	Turkey	62.5
Philippines	62.5	Liberia	54.5
Peru	62.5	Haiti	54.2
Liberia	54.5	Colombia	45.8
Haiti	54.2	Sri Lanka	45.8
Colombia	50.0	Philippines	45.8
Honduras	50.0	Chile	41.7
Sri Lanka	45.8	Romania	41.7
Morocco	45.8	Sudan	41.7
Somalia	45.4	Pakistan	37.5
Korea	41.7	Ecuador	37.5
Romania	41.7	Yugoslavia	37.5
Bolivia	41.7	Nicaragua	37.5
Chile	41.7	Peru	33.3
Ecuador	41.7	Honduras	33.3
Panama	41.7	Costa Rica	33.3
Sudan	41.7	Bangladesh	33.3
Jamaica	38.1	Mali	33.3
Pakistan	37.5	Morocco	33.3
Nicaragua	37.5	Somalia	31.8
Yugoslavia	37.5		

Sources: Supplement on Fund Accounts, IFS Supplement No.3; and Transactions of the Fund.

1/ Percent of years of membership since 1960. Excludes members with less than ten years of membership. The terminology "upper credit tranche terms" was used for simplicity to refer to use of Fund resources in the credit tranches and under the extended Fund facility.

2/ Excludes programs under arrangements under which no purchases were made.

Table XXVII. Cumulative Gross Purchases of Fund Resources Under the Credit Tranche or Extended Fund Facility by Individual Members, 1960-1983

Percent of Quota <u>1/</u>	Number of Members
0	48
1-100	33
100-200	18
200-300	15
300-400	11
400-500	15
500-600	2
600-700	2
700-800	1
800-900	1

Sources: Supplement on Fund Accounts, IFS Supplement No.3; and Transactions of the Fund.

1/ Purchases were normalized by the quota for the month in which the purchase occurred and summed over all years 1960 to the end of 1983.

Table XXVIII. Members with Largest Cumulative Gross Purchases Under the Credit Tranche or Extended Fund Facility, 1960-1983

Country	Percent of Quota <u>1/</u>	Country	Percent of Quota <u>1/</u>
Turkey	886	Chile	421
Yugoslavia	728	Zambia	417
Sudan	694	Ivory Coast	416
Jamaica	653	Costa Rica	412
Philippines	571	Uganda	409
Korea	536	Ecuador	402
Sri Lanka	481	Haiti	392
Liberia	481	Kenya	380
Nicaragua	474	Dominican Republic	378
Pakistan	473	United Kingdom	357
Peru	466	Honduras	357
Somalia	460	Malawi	356
Morocco	455	Egypt	334
Mauritius	441	Dominica	330
El Salvador	437	India	326

Sources: Supplement on Fund Accounts, IFS Supplement No.3; and Transactions of the Fund.

1/ Purchases were normalized by the quota for the month in which the purchase occurred and summed over the years of membership between 1960 and 1983.

Experience with Interruptions and Resumptions
of Purchases

This appendix presents some detail on the interruptions to and the resumptions of the right to request purchases under upper credit tranche stand-by and extended arrangements with the countries in the sample since 1977. 1/ Interruptions are defined to occur when the right to purchase is unduly delayed beyond the earliest date permitted under the arrangement or the date when information about performance criteria becomes available, whichever is later. Interruptions may thus result from a variety of circumstances ranging from temporary domestic or external disturbances to a breach of understandings of a more fundamental kind. Resumptions are defined as the making of purchases following interruptions within the same arrangement or under a replacement arrangement. The interruptions and resumptions under each arrangement are set out in Table XXIX.

Each country in the sample has experienced at least one interruption of purchasing rights since 1977 (Table XXX), some experiencing as many as eight or nine interruptions. On average, countries in the sample experienced four interruptions during that period, each interruption lasting on average four months. Thus, on average, arrangements with countries in the sample were interrupted for 16 months, equivalent to 35 percent of the total effective length of these arrangements. 2/

Individual experiences, however, differed widely. Interruptions for three countries (Gabon, Korea, and the Philippines) accounted for less than 12 percent of the effective length of their arrangements; these countries had only one or two interruptions each over the period, all of which except one were for only one or two months (the Philippines experienced a five-month interruption in 1983). At the other extreme, interruptions for three other countries (Costa Rica, Madagascar, and Mauritania) accounted for 60 to 70 percent of the cumulative effective length of their arrangements. Although the number of interruptions with these countries was not unusual, the average interruption lasted almost six months. In 14 of the remaining cases, interruptions accounted for 20 to 40 percent of the effective length of the arrangements, and in the other 7 for 40 to 60 percent.

In half of the instances of interruptions, such interruptions resulted from more than one performance criterion being breached simultaneously: in 32 percent of the cases, two criteria were not observed; in 12 percent, three criteria; and in 5 percent, four criteria or more. One of the most common reasons for interruption was the breaching of

1/ See "Supplementary Material for Review of Recent Extended and Upper Credit Tranche Arrangements," (EBS/82/97, Supplement 1, 6/10/82) for an earlier extensive review of the experience with interruptions and resumptions of purchases.

2/ The cumulative effective length of arrangements was 45 months on the average (out of 92 months in the period under study).

credit ceilings. The overall credit ceiling was not observed in 35 instances, in 25 of which the subceiling on credit to the public sector was exceeded. The subceiling on credit to the public sector was also exceeded in 14 other instances without, however, resulting in the overall credit ceiling also being exceeded. Another common reason for interruption was the failure to complete a review of the program or to reach understandings regarding some specific area of policy. This was the case in 45 instances of interruption. Other reasons for interruption were the nonobservance of ceilings on arrears (23), of targets on international reserves (9), of ceilings on external borrowing (7), of ceilings on fiscal deficits (4), and the introduction or intensification of restrictions (5).

Of the 100 instances of interruption, purchases were subsequently resumed in 80 cases either under the same arrangement or under a successor arrangement. Of the resumptions under the same arrangements, 25 followed the granting of waivers and 39 followed the subsequent observance of performance criteria (with 7 resumptions involving both waivers and the subsequent observance of performance criteria). Purchases were resumed in 37 of the 45 instances of interruption because of failure to complete a review or reach understandings on specific policy actions, following completion of the review or discussions.

Table XXIX. Interruption and Resumption of Purchases in Upper Credit Tranche Stand-By and Extended Arrangements with Countries in the Sample, 1977-1983

Country and Date of Arrangement	Interruption Date	Credit		Public sector deficit	Foreign assets	External debt	External arrears	Performance Criteria not Observed 1/		Resumption Date	Waiver	Observed later	Successful or Arrangement 2/	Number of Purchases		
		To-Govern-	ment Other					Exchange res-trictions	Review					Intend-	ed Act.	
Bangladesh																
Jul.79	Feb.80	x								Jun.80		x 3/		3	3	
Dec.80	Jul.81	x	x						x	Mar.83			x	5	3	
Mar.83	Apr.83								x	Jul.83				3	3	
Bolivia																
Feb.80	Oct.80	x	x		x					n/a				4	3	
Costa Rica																
Mar.80	Aug.80	x	x							June 81			x	5	1	
June 81	Aug.81				x					Dec.82			x	5	1	
Dec.82	Feb.83		x							Apr.83						
	Aug.83									Sep.83	x					
	Nov.83									Dec.83	x			5	5	
Egypt																
Apr.77	Aug.77						x	x		Sep.77	x					
	Nov.77									Dec.77	x					
	Feb.78	x	x							n/a				4	3	
Jul.78	Nov.78		x							n/a				4	1	
Gabon																
May 78	--													3	3	
June 80	Oct.82					x				n/a				7	0	
Guyana																
Aug.78	--													3	3	
June 79	Sep.79	x	x				x			Jul.80			x	3	1	
Jul.80	Oct.80	x	x							Nov.80	x					
	Jan.81	x	x							Jul.80			x			
	Sep.81	x	x							n/a				8	3	
Jamaica																
Aug.77	Dec.77	x	x		x		x			June 78			x	4	1	
June 78	--													5	5	
June 79	Jan.80	x	x		x		x			Apr.81			x	5	3	
Apr.81	Mar.83	x	x		x		x		x	June 83	x					
	Oct.83	x			x		x			n/a				12	10	

Table XXIX (continued). Interruption and Resumption of Purchases in Upper Credit Tranche Stand-By and Extended Arrangements with Countries in the Sample, 1977-1983

Country and Date of Arrangement	Inter- ruption Date	Credit		Public sector deficit	Foreign assets	Exter- nal debt	Exter- nal arrears	Ex- change res- tric- tions	Review	Resump- tion Date	Waiver	Ob- serv- ed later	Suc- ces- or Arrange- ment ^{2/}	Number of Purchases	
		To- tal	Govern- ment Other											Intend- ed	Act.
Kenya															
Aug.79	Sep.79		x							Oct.80			x	6	0
Oct.80	June 81	x	x						x	Jan.82			x	4	3
Jan.82	Apr.82								x	May 82		x			
	Aug.82	x	x						x	n/a				4	2
Mar.83	Sept.83								x	Oct.83		x			
	Apr.84								x	May 84		x		6	6
Korea															
Mar.80	--													4	4
Feb.81	--													4	4
Jul.83	May 84								x	June 84		x		5	5
Liberia															
Sep.80	Oct.80		x							Dec.80	x			4	4
Aug.81	--													5	5
Sep.82	Nov.82								x	Feb.83		x			
	May 83									n/a				5	3
Sep.83	Mar.84					x			x	Apr.84		x		4	4
Madagascar															
June 80	Aug.80		x							Apr.81			x	4	1
Apr.81	Aug.81									n/a				6	2
Jul.82	Feb.83								x	Apr.83	x	x			
	May 83									n/a				5	4
Malawi															
Oct.79	Jan.80	x	x							May 80			x	3	1
May 80	Jan.81									May 81	x				
	Jan.82	x	x							n/a				8	6
Aug.82	Jan.83								x	Feb.83		x		4	4
Sep.83	--													5	5
Mauritania															
Jul.80	Dec.80	x								June 81			x	4	2
June 81	June 81	x	x							Mar.82		x		4	4

Table XXIX (continued). Interruption and Resumption of Purchases in Upper Credit Tranche Stand-By and Extended Arrangements with Countries in the Sample, 1977-1983

Country and Date of Arrangement	Interruption Date	Performance Criteria not Observed 1/					Exchange res-trictions Review	Resump-tion Date	Walver	Ob-serv-ed later	Suc-ces-sor Arrange-ment 2/	Number of Purchases	
		To-tal	Govern-ment	Other	Public sector deficit	Foreign assets						Ex-ter-nal debt	Ex-ter-nal arrears	Intend-ed	Act.
Mauritius													
Oct.79	Jan.80	x	x										
	June 80	x	x				May 80	x				3	3
Sep.80	--						Sep.80			x		4	4
Dec.81	June 82						Nov.82		x			4	4
May 83	Jul.83						Nov.83		x				
	Apr.84						May 84		x			6	6
Morocco													
Oct.80	Jan.81						Mar.81			x		2	1
Mar.81	Jul.81	x	x			x	Apr.82			x		4	2
Apr.82	--											4	4
Sep.83	Oct.83		x				Apr.84	x	x				
	Jul.84					x	Sep.84	x	x			4	4
Pakistan													
Mar.77	Aug.77	x	x				Sep.77			x 3/			
	Nov.77					x	Dec.77	x				4	4
Nov.80	Feb.81		x				Mar.81	x					
	Sep.81		x				Dec.81			x		4	3
Dec.81	Sep.82						Feb.83		x				
	Aug.83	x	x				n/a					8	6
Panama													
Mar.79	Aug.79				x		n/a					4	0
Apr.80	Oct.81				x		n/a					7	6
Apr.82	Jul.82				x		n/a					4	0
June 83	Jan.84					x	Feb.84	x	x			6	6
Peru													
Nov.77	Feb.78	x				x	Sep.78			x		4	1
Sep.78	--											4	4
Aug.79	Feb.80						Feb.80		x			5	5
June 82	Feb.83					x	May 83		x				
	Nov.83	x	x		x		Apr.84			x		8	6
Philippines													
Feb.80	Aug.80		x				Sep.80	x				8	8
Feb.83	Aug.83						n/a					5	2

Table XXIX (continued). Interruption and Resumption of Purchases in Upper Credit Tranche Stand-By and Extended Arrangements with Countries in the Sample, 1977-1983

Country and Date of Arrangement	Interruption Date	Credit		Public sector deficit	Foreign assets	External debt	External arrears	Performance Criteria not Observed 1/		Resumption Date	Waiver	Observed later	Successor Arrangement 2/	Number of Purchases	
		To- tal	Govern- ment Other					Exchange res- tric- tions	Review					Intend- ed	Act.
Senegal															
Aug.80	Dec.80	x								Sep.81			x	5	2
Sep.81	Jan.82	x							x	May 82		x		5	5
Nov.82	Dec.82	x	x							Sep.83			x	5	1
Sep.83	--													4	4
Sri Lanka															
Dec.77	Jan.79													3	3
	Aug.79								x	Oct.79		x			
	Jan.80								x	June 80		x			
	Jul.80	x	x							June 81		x			
	Sep.81								x	Nov.81		x		8	8
Sep.83	Apr.84								x	n/a				5	3
Sudan															
May 79	Aug.79		x				x			Sep.79	x				
	Nov.79	x								Mar.80	x				
	June 80									Nov.80		x			
	Feb.81	x								Apr.81	x				
	June 81									Feb.82			x	8	8
Feb.82	May 82						x		x	n/a				5	1
Feb.83	Apr.83								x	Sep.83					
	Feb.84						x			Mar.84		x		5	5
Tanzania															
Sep.80	Nov.80						x			n/a				8	1
Turkey															
Apr.78	Aug.78	x								Sep.78	x				
	Nov.78		x						x	Jul.79			x	5	2
Jul.79	Nov.79						x		x	Feb.80	x	x		3	3
June 80	Jul.81								x	Sep.81		x			
	Oct.82									Jan.83	x			12	12
June 83	Feb.84	x							x	Apr.84			x	3	1
Zambia															
Apr.78	Aug.78		x							Aug.78	x				
	Nov.78						x			Nov.78	x				
	Feb.79						x		x	Apr.79		x 3/			
	Feb.80								x	Mar.80		x		9	9

Table XXIX (concluded). Interruption and Resumption of Purchases in Upper Credit Tranche Stand-By and Extended Arrangements with Countries in the Sample, 1977-1983

Country and Date of Arrangement	Inter- ruption Date	Performance Criteria not Observed 1/			Public sector deficit	Foreign assets	Exter- nal debt	Exter- nal arrears	Ex- change res- tric- tions	Review	Resump- tion Date	Waiver	Ob- serv- ed later	Suc- ces- or Arrange- ment 2/	Number of Purchases	
		To- tal	Govern- ment	Other											Intend- ed	Act.
Zambia (cont.)																
May 81	Aug.81	x	x	x				x			Nov.81	x	x			
	May 82								x		Apr.83			x	4	3
Apr.83	June 83		x						x		Sep.83		x			
	Nov.83								x		Dec.83		x			
	Feb.84							x	x		n/a				5	4

Source: Staff reports.

1/ And resulting in an interruption. Not including cases when subsequent data corrections showed that one or more criteria for an earlier date had not been observed. Some interruptions are for technical reasons, not affecting the substance of the program. For example, in February 1983 revisions to monetary data in Costa Rica required a technical amendment to the performance criteria; and the review with Korea scheduled for April 1984 was completed in June 1984 because of scheduling difficulties.

2/ An arrangement that becomes effective before the originally envisaged expiration date of the initial arrangement.

3/ Following retroactive modification of criteria.

Table XXX. Frequency and Length of Interruptions

Country	Cumulative Length of Arrangements (Months)	Number of Interruptions	Interruptions				
			Cumulative length Months	Percent ^{1/}	Average length (Months)	Number of reasons	Average number of reasons
Gabon	42.0	1.0	2.0	4.8	2.0	1.0	1.0
Korea	37.0	1.0	2.0	5.4	2.0	1.0	1.0
Philippines	68.0	2.0	8.0	11.8	4.0	3.0	1.5
Average	49.0	1.3	4.0	7.3	2.7	1.7	1.2
Malawi	52.0	4.0	11.0	21.2	2.8	6.0	1.5
Liberia	47.0	4.0	10.0	21.3	2.5	5.0	1.3
Bolivia	12.0	1.0	3.0	25.0	3.0	3.0	3.0
Peru	60.0	4.0	16.0	26.7	4.0	7.0	1.8
Turkey	71.0	6.0	19.0	26.8	3.2	10.0	1.7
Jamaica	70.0	4.0	20.0	28.6	5.0	17.0	4.3
Mauritius	49.0	5.0	14.0	28.6	2.8	7.0	1.4
Pakistan	48.0	6.0	14.0	29.2	2.3	10.0	1.7
Zambia	49.0	9.0	15.0	30.6	1.7	18.0	2.0
Panama	58.0	4.0	20.0	34.5	5.0	5.0	1.3
Sri Lanka	58.0	5.0	22.0	37.9	4.4	6.0	1.2
Average	52.2	4.7	14.9	28.2	3.3	8.5	1.9
Bangladesh	29.0	3.0	12.0	41.4	4.0	5.0	1.7
Morocco	41.0	4.0	18.0	43.9	4.5	8.0	2.0
Sudan	50.0	8.0	23.0	46.0	2.9	11.0	1.4
Egypt	24.0	4.0	12.0	50.0	3.0	8.0	2.0
Kenya	54.0	6.0	26.0	48.1	4.3	10.0	1.7
Senegal	46.0	3.0	22.0	47.8	7.3	5.0	1.7
Guyana	46.0	4.0	25.0	54.3	6.3	9.0	2.3
Average	41.4	4.6	19.7	47.4	4.6	8.0	1.8
Costa Rica	39.0	5.0	24.0	61.5	4.8	7.0	1.4
Madagascar	36.0	4.0	23.0	63.9	5.8	7.0	1.8
Mauritania	20.0	2.0	14.0	70.0	7.0	3.0	1.5
Average	31.7	3.7	20.3	65.1	5.9	5.7	1.6
Tanzania ^{2/}	21.0	1.0	20.0	95.2	20.0	1.0	1.0
All countries (Excluding Tanzania)	1,127.0 (1,106.0)	100.0 (99.0)	395.0 (375.0)	35.0 (33.9)	4.0 (3.8)	173.0 (172.0)	1.7 (1.7)

Source: Staff reports.

^{1/} As percent of the cumulative length of arrangements.

^{2/} Purchases under the September 1980 stand-by arrangement with Tanzania were interrupted in November 1980 and were not resumed. Since the phasing of purchases had been specified for the whole duration of the arrangement (21 months), the duration of the interruption is stated as 20 months.

Statistical Methods

In order to identify the contribution of various factors to the evolution of external current account deficits for countries in the sample, adjustments were made for key external influences (i.e., net oil imports and net investment income) and short-term reversible disruptions. The fiscal balance was also adjusted for short-term reversible fluctuations in revenues reflecting fluctuations in export receipts. The method of adjustment for these various factors is explained in this Appendix.

I. Adjustments to External Current Account

1. Net oil imports and investment income

Payments balances in respect of oil imports and investment income were obtained directly from balance of payments statistics. The adjustments thus reflect both external influences (i.e., higher oil prices and interest rates) and the effects of policies followed by each country to reduce the volume of oil imports or contain increases in external debt.

2. Fluctuations in non-oil terms of trade

Adjustments were made separately to non-oil exports and imports for deviations of non-oil export and import prices (in U.S. dollars) from their respective trends estimated over the period 1973-1983. The adjustment thus reflects only temporary deviations rather than trends (up or down) in non-oil terms of trade.

3. Cyclical fluctuations in export volumes

Non-oil export receipts were adjusted where appropriate for fluctuations in volume reflecting temporary fluctuations in foreign demand. For this purpose, equations were estimated relating the volume of non-oil exports for each country to a time trend, a relative price variable, and deviations from trend of the volume of non-oil imports by industrial and developing countries. The estimated coefficients for each country relating the volume of non-oil exports to the volume of imports of industrial and developing countries are shown in Table XXXI. Only estimated coefficients with the correct sign and t-statistics above unity were used in adjusting non-oil export volumes. Since the estimated elasticities were obtained for all countries from uniform application of relatively simple statistical methods, these estimates may be substantially less reliable than estimates for each country, taking fully into account country-specific developments or circumstances. The purpose of the correction for cyclical fluctuations of export volumes, however, is to adjust for influences which are likely to be particularly important and should thus be readily apparent in the data.

4. Other temporary disruptions

Adjustments were also made for estimated deviations of the volumes of exports and food imports resulting from droughts, strikes, wars, etc. ^{1/} In most cases, these estimates were obtained for the years when such factors were identified as deviations of export or food import volumes from five-year centered averages. In the case of Malawi, which experienced sharp increases in the cost of imports due to persistent disruptions in transportation routes, only increases in such costs from the preceding year were included in the adjustment.

II. Adjustments to Fiscal Balance

Cyclically adjusted budget balances were estimated by adjusting current budget revenues for short-term fluctuations in export receipts (items 2, 3, and 4 above). Estimates of the buoyancy of current budget revenues to changes in export receipts used for this purpose are shown in Table XXXII. The estimates were obtained from regressions estimated over the period 1973-1983 and are thus subject to qualifications similar to those noted earlier in the case of elasticities of export volumes in response to fluctuations in foreign demand. No adjustments were made to expenditures, since these are primarily policy variables.

^{1/} No such adjustment would be needed for food imports if the definition of the current account balance included all unrequited transfers and if the exceptional food imports were on a grant basis. The definition of the current account used in this study, however, includes private but not public transfers.

Table XXXI. Estimated Elasticity of Non-Oil Exports
with Respect to Imports of Industrial and
Developing Countries

	Industrial Countries	Developing Countries
Bangladesh	0.62	--
Bolivia	0.90	0.89
Costa Rica	0.38	--
Egypt	...	...
Gabon	5.19	--
Guyana	0.33	--
Jamaica	0.16	--
Kenya	0.34	--
Korea	--	1.18
Liberia	1.32	1.16
Madagascar	--	--
Malawi	1.00	--
Mauritania	1.09	--
Mauritius	1.62	--
Morocco	2.67	--
Pakistan	--	--
Panama	...	...
Peru	1.25	--
Philippines	0.94	1.46
Senegal	--	--
Sri Lanka	--	--
Sudan	--	--
Tanzania	0.22	--
Turkey	--	--
Zambia	0.35	--

Source: Fund staff estimates.

Table XXXII. Estimated Buoyancy of Current Budget Revenues
with Respect to Production for Domestic Use and Exports

	GDP ^{1/}	GDP Less Exports	Exports
Bangladesh	0.773	--	0.574
Bolivia	--	0.650	0.943
Costa Rica	--	0.586	0.443
Egypt	--	1.194	0.139
Gabon	0.752	--	0.479
Guyana	--	0.421	0.825
Jamaica	--	0.714	0.401
Kenya	--	0.840	--
Korea	--	0.600	0.527
Liberia	--	0.641	0.319
Madagascar	0.299	--	0.686
Malawi	--	0.874	0.005
Mauritania	--	0.555	0.325
Mauritius	--	1.080	0.050
Morocco	--	0.552	0.191
Pakistan	--	0.806	0.288
Panama	--	1.270	0.183
Peru	--	0.607	0.389
Philippines	--	0.729	--
Senegal	--	0.886	0.143
Sri Lanka	--	0.296	0.531
Sudan	0.750	--	0.114
Tanzania	--	1.011	--
Turkey	--	1.321	--
Zambia	--	0.518	0.386

Source: Fund staff estimates.

^{1/} For these cases, for which GDP rather than GDP less exports was used in the estimating equations both the direct elasticity and the indirect elasticity (through GDP) with respect to exports were used in adjusting budget revenues.