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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/21

10:00 a.m., February 10, 1984

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

| Executive Directors | Alternate Executive Directors |
|---|---|
| A. Alfidja | L. Doe, Temporary |
| | T. Ramtoolah, Temporary |
| J. de Groote | H. G. Schneider |
| B. de Maulde | X. Blandin |
| | J. Delgadillo, Temporary |
| | M. K. Bush |
| | J. C. Williams, Temporary |
| | M. B. Chatah, Temporary |
| T. Hirao | |
| J. E. Ismael | Jaafar A. |
| R. K. Joyce | D. I. S. Shaw, Temporary |
| | H. A. Arias, Temporary |
| | G. Grosche |
| | C. P. Caranicas |
| R. N. Malhotra | |
| | J. E. Suraisry |
| J. J. Polak | T. de Vries |
| | K. G. Morrell |
| G. Salehkhou | |
| | E. I. M. Mtei |
| | M. Camara, Temporary |
| | J. L. Feito |
| | A. K. Juusela, Temporary |
| N. Wicks | T. A. Clark |
| Zhang Z. | Wang E. |

L. Van Houtven, Secretary
J. C. Corr, Assistant

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Also Present

B. Legarda, Consultant. African Department: J. B. Zulu, Director; R. J. Bhatia, Deputy Director; M. W. Bell, E. A. Calamitsis, R. O. Carstens, U. R. Gunjal, C. J. Hoban, M. Kuhn, S. L. Rothman, R. L. Sharer. Asian Department: N. N. Choudhry, K. Saito, X. Vongsathorn. Exchange and Trade Relations Department: M. Guitian, S. Kanesa-Thasan. External Relations Department: H. O. Hartmann. IMF Institute: U Tun Wai, Deputy Director. Legal Department: G. P. Nicoletopoulos, Director; W. E. Holder, A. O. Liuksila. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat, J. A. Kay. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: C. J. Batliwalla, S. El-Khouri, W. Moerke, G. Nguyen, Y. Okubo, I. R. Panday. Assistants to Executive Directors: H. Alaoui-Abdallaoui, L. E. J. M. Coene, M. Eran, G. Ercel, C. Flamant, V. Govindarajan, D. Hammann, M. Hull, H. Kobayashi, M. Rasyid, J. Reddy, D. J. Robinson, A. A. Scholten, Shao Z., S. Sornyanyontr.

1. BOTSWANA - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Botswana together with a proposed decision concluding the 1983 Article XIV consultation (SM/84/11, 1/9/84). They also had before them a report on recent economic developments in Botswana (SM/84/28, 1/27/84).

The staff representative from the African Department made the following statement:

> The following information on late 1983 developments and a change in interest rate policy for 1984 has become available to the staff subsequent to the issuance of SM/84/11 and SM/84/28.
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> As a result of higher than anticipated sales toward the end of the year, Botswana's diamond exports in 1983 reached SDR 400 million, or SDR 26 million above the estimated level noted in Table 2 of the staff report (SM/84/11). Also, the estimated import level has been revised downward by SDR 26 million. Reflecting mainly these revisions, the overall balance of payments surplus in 1983 is currently estimated at SDR 103 million, compared with an estimate of SDR 60 million at the time of the mission. Moreover, by end-1983 Botswana's gross official international reserves had increased to SDR 369 million, or the equivalent of about 7.5 months of imports (c.i.f.).
>
> Consumer price inflation continued its downward trend and, for the 12-month period ended December 1983, it was 7.9 percent, compared with 8.5 percent for the year ended September 1983. On an average annual basis, the actual rate (9.7 percent) approximated the estimate (10 percent) in the staff report (Table 1).
>
> In the financial area, as anticipated the expansion in private sector credit decelerated in the last quarter of the year. For all of 1983 the increase is now estimated by the Botswana authorities at about 20 percent. This is identical to the estimated rate contained in the staff report and compares with the rate of 29 percent for the 12-month period ended September. In addition, probably reflecting increased revenues associated with higher diamond sales, the buildup in government deposits with the banking system in 1983 was somewhat larger than estimated by the mission.
>
> Following a review of the above developments, the Botswana authorities reduced interest rates, effective January 1, 1984, by 1.5-2.0 percentage points. For example, the commercial banks' prime lending rate was reduced from 13.0 percent to 11.5 percent, and the savings deposit rate was lowered from 9.5 percent to 8.0 percent. As a consequence of this action and further increases in South African rates, the interest rate differentials between the two countries widened in January to about 8 percentage

points, compared with a spread of 5 percentage points during the fourth quarter of 1983. The staff would reiterate its recommendation that the Botswana authorities carefully consider narrowing the differentials to forestall an avoidable and possibly significant erosion in Botswana's external position.

Mr. Mtei made the following statement:

My Botswana authorities are grateful to the staff for the manner in which they conducted the Article IV discussions and for the useful and precise set of papers which they have produced on the recent performance of the economy of Botswana.

Despite the persistent drought which reduced agricultural output by more than 11 percent in 1982/83, the performance of the economy has been satisfactory with a rapid increase in real growth and a lower inflation rate. The fiscal and external payments positions also improved. These developments are a reflection of accelerated mineral output, expansion in livestock production, and prudent economic and financial policies including revenue-raising measures and the implementation of flexible exchange rate, interest rate, and pricing policies. The prospects for 1983/84 look good, as GDP is projected to grow by almost 12 percent in real terms.

As a reflection of the Government's improved financial position, the overall budget deficit as a percentage of GDP narrowed from 2.5 percent in 1981/82 to 2.2 percent in 1982/83. Although this adjustment might appear to be marginal, it should be noted that net lending to banks, which increased considerably in 1982/83, constitutes a large part of the 21 percent rise in government expenditure. It is also significant to note that the revenue effort of the Government resulted in a 22 percent growth in revenue in 1982/83, compared with only 5 percent in 1981/82.

The budget provides no direct subsidies to public enterprises which are expected to operate on a commercial basis and be financially self-supporting. To enable these parastatals to maintain a sound financial position, public utility tariffs were increased substantially in 1982 and 1983.

For 1983/84 the favorable budgetary position is expected to continue. Increases of 36 percent in revenues and grants and 31 percent in total expenditure are projected with an overall budget deficit of 0.6 percent of GDP. To ensure more efficient budgetary use of resources, the authorities plan a shift in the composition of expenditure toward development-related outlays. They recognized the need for an expansion of the tax base, but felt that this could not be achieved in the short term in view of the considerable increases in taxes, including income tax on companies, sales tax, and tax on livestock, which are now in place. However, they hope that further broadening of the tax base will be achieved over the medium term through increased diversification of the economy, an objective that is being pursued within the framework of the current National Development Plan.

The tight monetary and credit policies of 1982 were reversed during the course of 1983. Annual growth rates of money supply and private sector credit at the end of 1983 were 18 percent and 20 percent, respectively, compared with growth rates of 8 percent and 3 percent in 1982. In view of the excessive liquidity position of the banks, export sector recovery, improved balance of payments position, high level of international reserves, and lower rate of inflation, the Bank of Botswana reduced its lending rate by 1.5 percentage points in February 1983 and a further reduction was effected on January 1, 1984. Consequently, commercial banks' prime rate and the savings deposit rate now stand at 11 percent and 8 percent, respectively. The authorities believe that this flexible approach was necessary in view of the adverse impact of high interest rates and tightened credit policies on private sector activity and the level of investment. Despite the reduction, real interest rates are positive. The authorities also believe that at present it is difficult to manipulate the banks' required liquidity ratio to reduce private sector credit expansion because of the large amounts of excess liquidity held by the banks. However, they are following developments closely to see if there is need for policy changes.

In the external sector, the authorities expect an overall balance of payments surplus of SDR 103 million, compared with a surplus of SDR 5 million in 1982 and a deficit of SDR 61 million in 1981. In 1983 the country's international reserves increased to SDR 369 million, which is equivalent of 7.5 months of imports. Over the medium term, the authorities are optimistic that the external position will remain strong. They expect a 17 percent a year growth in diamond export receipts. They also expect the large coal and soda-ash projects which are currently under consideration to yield about SDR 500 million annually in export proceeds.

Botswana's debt is on concessional terms and the debt service ratio, estimated at 4 percent in 1983, has remained at a very low level. The authorities do not foresee any major debt service difficulties over the medium term. They are monitoring the debt situation closely and will review their borrowing policy if and when the debt service ratio approaches an indicative level of 10 percent. Botswana is committed to a free exchange system and follows a flexible exchange rate policy. The pula, which is pegged to a currency basket, was devalued by 10 percent in May 1982 and its real effective exchange rate has been depreciating.

Mr. Clark remarked that Botswana was fortunate in having rich reserves of mineral resources; however, such good fortune was not sufficient. The authorities should be congratulated for having followed prudent economic policies, shown by their prompt and effective action in 1983 to reduce the fiscal deficit. As a result, economic growth had been impressive even at a time of drought and world recession. The prospects also looked good in the medium term, but it would be important to continue the development and diversification of the economy while continuing to bear in mind the need for a sustainable balance of payments and a moderate debt service ratio.

The implications of recent developments in monetary policy for the balance of payments were slightly worrying, Mr. Clark continued. In 1983, the increase of 20 percent in private sector credit had been too high, and interest rates had been significantly below the levels in South Africa. Consequently, both imports and capital outflows had been encouraged. One way of correcting the situation would have been to raise interest rates, but, instead, the authorities had reduced them further. He appreciated the authorities' concern to stimulate investment and to help the agricultural sector through the drought; in addition, the level of reserves at present was comfortable. However, the position could change soon, as the staff had indicated, and the authorities would do well to reconsider the appropriate level of interest rates. Had they taken, in the interim, any measures to discourage speculation by outside firms?

The staff's projections of the longer-term outlook for the balance of payments were helpful, Mr. Clark considered. In particular, the continuous rise projected in the debt service ratio underlined the need for a cautious borrowing policy, even though the ratio would remain at a modest level. The staff's suggestion of a specific institutional mechanism to achieve that goal was useful. The Botswana authorities took a more optimistic view of the prospects for diamond exports than the staff. Since those prospects constituted a critical factor in the medium-term assessment, it might have been worth including an alternative scenario using the authorities' calculations for comparison. For planning purposes, he urged the authorities to use cautious assumptions so as to avoid the possibility that further external borrowing might be needed.

In conjunction with the general aim of improving the external accounts, measures to diversify the sources of export receipts would be welcome, Mr. Clark went on. He noted the proposals for coal and soda-ash projects, and he agreed with the staff's caution, particularly in relation to the idea of building a railway to the west coast. A single investment project equivalent to a whole year's GNP necessarily had to be approached with caution. At a more modest level, there was scope to strengthen further the agricultural sector and to develop tourism.

The authorities were to be commended for their adherence to a liberal trade and payments system, Mr. Clark suggested. Indeed, there appeared to be no reason why they should not consider moving to Article VIII status.

Finally, given the absence of pressing problems in the economy of Botswana, there was a good case for holding future consultations at 18-month intervals in order to conserve the Fund's scarce resources.

Mr. Doe stated that the economy of Botswana appeared to be one of the healthiest in southern Africa. Although severe and prolonged recession had been felt elsewhere during 1980-82, Botswana had achieved an enviable economic growth rate of 6 percent in 1981 and almost 9 percent in 1982, and an even higher rate of 13 percent in 1983. The rise in consumer prices had slowed considerably since 1981. Furthermore, except for a temporary fall in 1981, export growth had been healthy and the external current account deficit had decreased substantially during the previous two years. The Government had established a comfortable net creditor's position vis-à-vis the banking system.

In the area of economic policy, Mr. Doe continued, no consumer subsidies were granted and price controls were limited. Interest rate policy was applied relatively flexibly, wage policy was moderately restrained, and international transactions were virtually restriction free. The authorities had to be commended for the solid financial performance of their economy.

Commenting on demand management policies, Mr. Doe noted that import estimates for 1983 had been revised downward. Although the foreign exchange position of the country was healthy, he agreed with the staff that there was a need to monitor closely the evolution of imports. Likewise, in the fiscal area, given the limited scope for a large or rapid revenue increase, the implementation of a more cautious expenditure policy could prove wise. The temptation to increase outlays substantially on the basis of a solid but temporary rise in revenue should be resisted. Similar prudence needed to be observed with regard to credit policy in order to keep the growth of aggregate demand under control.

Botswana's external debt service ratio was low by international standards, Mr. Doe observed, a reflection not only of the export performance of the country and the concessional nature of the foreign loans that it had received, but also of the Government's generally prudent attitude toward indebtedness. In view of the rising trend of the debt service ratio indicated in Table 2 on page 5 (SM/84/11), he noted with interest the Botswana authorities' intention to watch carefully the evolution of external debt.

The heavy dependence of export earnings, government revenue, and total income on mining and livestock placed limitations on the ability of the economy to adjust swiftly to exogenous disturbances, Mr. Doe suggested. That dependence would certainly decrease with the diversification of the economic base, although it was no doubt easier to talk about diversification than to achieve it effectively. The implementation of the Fifth National Development Plan was an indication of the Government's awareness of the weakness of the country's economic base. In that respect, the underinvestment in the agricultural and industrial sectors was somewhat disappointing. He hoped that the bottlenecks preventing more rapid implementation of projects in those sectors would be removed in the not too distant future. It was interesting to note that more than 100 production units employing at least 10 workers had been created in the manufacturing sector since 1981.

Turning to the medium-term projections of the external position, Mr. Doe noted that the net outflow of funds for the payments of services and private transfer operations was forecast to increase more than fivefold over an eight-year period, chiefly as a result of large interest and dividend payments abroad. It was possible that the forecasts were on the high side, given the concessional nature of most previous loans and the increased participation of the Government in mining ventures, which would keep some dividends at home. Furthermore, it could be realistically argued that the correlation between exports of diamonds or other minerals and dividend payments was positive. Consequently, if export growth was forecast to be no more than moderate over a number of years, dividend payments should also be moderate, unless large decreases in production costs were expected. He commended the Botswana authorities for not being prodigal in the face of plenty and for having adopted a cautious stance in their management of the economy.

Mr. Shaw said that it was evident from the information in the staff report and from the additional information provided at the beginning of the meeting that the economy of Botswana had benefited remarkably from prompt actions taken by the authorities since the time of the previous Article IV consultation (EBM/82/122, 9/20/82). The measures had helped to correct a number of problems even in the face of drought and deteriorating external conditions, through restraint of demand and stabilization of the fiscal and external positions. They reflected the same sound economic management that had for long characterized Botswana's economic policies; he encouraged the authorities to continue those efforts in 1984.

On the fiscal side, the authorities should be commended for reducing the deficit to an estimated 5 percent of GDP in 1983, Mr. Shaw continued. However, although a small surplus might be realized in 1984/85, the revenue position was too highly dependent on trade-related taxes, which were estimated to account for about 70 percent of revenue in 1983/84. With the tapering off of diamond production, government revenues from that source would be reduced in the medium term; the authorities would be well advised to broaden the tax base if possible.

Commenting on monetary and credit policies, Mr. Shaw remarked that he agreed with Mr. Clark that the 20 percent expansion of private sector credit in 1983 had been high; it should be moderated in 1984. It was disappointing to learn that interest rates had been reduced on January 1, 1984 by 1.5-2.0 percentage points. While loan rates were positive in real terms, deposit rates were negative. Interest rates and flexible management of bank reserves should be the principal tools for ensuring monetary restraint. The interest rate was a matter of concern because the differential between the rates in Botswana and South Africa could, by encouraging capital outflows, reverse the gains made on the balance of payments.

Mr. Williams observed that it was clear that Botswana's economic and financial performance continued to be favorable through 1983 and that the near-term prospects remained promising. On the occasion of the previous Article IV consultation, his chair had noted that the Botswana authorities had been following prudent policies in the management of their economic and financial affairs. The continuation of that prudent stance was welcome. The thorough and comprehensive medium-term framework within which the consultation discussions had taken place was particularly welcome.

Central government expenditures, at 42 percent of GDP, were exceptionally high at present, Mr. Williams continued. The reasons were understandable, but it was questionable whether it was appropriate to have as a strategic objective a level of public expenditures in excess of that figure over the medium term. The projection by the authorities of average annual growth in total budgetary expenditure of about 15 percent through 1990 was a matter of concern. The Botswana authorities had demonstrated their ability to manage their economy prudently; if they continued to do so, they ought to be able to achieve a relatively low rate of domestic inflation. But, the projected rate of growth of government expenditures implied a rather substantial real increase in the already high level of government expenditures relative to GDP until the end of the 1980s.

The high rate of increase in expenditures took into account the planned shift in the composition of total expenditures toward current outlays so as to provide for adequate maintenance of development projects, Mr. Williams noted. While such a shift appeared to be correct, the substantial increases in expenditures raised questions about the longer-term feasibility of development projects existing or planned, if they required such a high level of expenditure growth in order to be adequately maintained. He invited the staff or Mr. Mtei to comment on the subject. He reiterated his chair's view that over the medium term revenue policies should not inhibit a dynamic expansion of the private sector.

With regard to prospects in the external sector, Mr. Williams agreed with the staff that balance of payments strains could emerge in the medium term. The debt service ratio was projected to increase rapidly through 1988. Therefore, the authorities should consider improvements in the institutional arrangements for the management of external debt. He welcomed the fact that there had been no changes in the exchange control system since the previous Article IV consultations.

Mr. Polak said that the authorities in Botswana had managed their economy most competently for many years, as the staff had made clear in the first paragraph of its appraisal. On those grounds, it would not be necessary, or correct, to conduct the next Article IV consultation on the 12-month cycle.

The staff representative from the African Department noted that one Director had commented on the projected 15 percent growth in public expenditures. That figure had emerged from exercises conducted by the authorities prior to the completion of the mid-term review of the current development plan. The staff had discussed the projections with the authorities and it had made the point that, if the growth rate of public expenditure was at all close to that figure, there would be a strong need to expand and to diversify the revenue base. Moreover, the authorities were certainly aware of the need to restrain expenditures in the medium term. They were focusing primarily on two areas: with regard to recurrent expenditures, they believed that by cutting the growth in the real wage bill, they could reduce the growth of real recurrent outlays by about 4 percentage points compared with its growth rate over the previous five years; with regard to development projects, they had decided to cut the growth rate of "core projects" from about 8 percent in real terms to 6 percent in real terms. If those two objectives were realized, the staff believed that the 15 percent growth rate originally forecast would decline to about 10 percent.

Interest rates had been reduced at the beginning of 1984, the staff representative continued. As a result, the interest rate differential between Botswana and South Africa was now about 8 percentage points. As far as the staff knew, the authorities were not taking measures to prevent speculation by nonresident firms in Botswana. The authorities had traditionally followed a liberal policy with respect to capital outflows, a situation that increased the staff's concern that the authorities should take action to reduce the differential.

The projected sixfold increase in the net outflow of services and private transfers was striking, the staff representative remarked. However, 1981 and 1982--the base years in Table 2 (SM/84/11), in which the projections appeared--had been the two worst years in about a decade for mineral exports and, therefore, for the outflow of dividends. If a more normal year, such as 1983, were used as the base, the increase was between twofold and threefold. The figures had been provided by the Botswana authorities. The staff had examined them in detail, and they had appeared appropriate on the basis of the medium-term export assumptions used in that table.

Some Directors had suggested that the next Article IV consultation with Botswana should be held on an 18-month cycle, the staff representative from the African Department recalled. The staff had suggested a 12-month cycle in part because of the high value that the Botswana authorities placed on close association with the Fund. The Article IV consultation mission had been timed to provide input for the authorities' budget preparations, and the staff was confident that some of the comments in its appraisal would be reflected in policy actions in the forthcoming budget. The authorities had also invited missions to discuss policies on occasions other than an Article IV consultation, and they had at times taken remedial measures on the basis of such discussions, for example, in 1982.

The staff representative from the Exchange and Trade Relations Department said that Botswana did not fall clearly within the framework of the 12-month cycle, for which the Executive Board had suggested three criteria: the country should be important in the world economy, or there should be a Fund program in place, or the country should be encountering balance of payments difficulties. Nevertheless, particular weight should be given to the value that the authorities placed on annual discussions as the basis for their policy formulation, in particular with regard to the budget. It should also be borne in mind that only a few years earlier Botswana had run into unanticipated serious balance of payments difficulties and that the possibility of a Fund-supported program had been discussed. Furthermore, the staff had noted in its report that, although the current balance of payments position was healthy, possible strains could develop over the medium term. Perhaps the most appropriate course at present would be to leave the question of the timing of the next Article IV consultation open to review in due course.

Mr. Shaw remarked that, while he agreed in general with the comments by Mr. Clark and Mr. Polak to the effect that Botswana could reasonably be placed on an 18-month cycle, the staff representative's explanation of the authorities' preference for a 12-month cycle had been impressive. There were a number of small countries, including some in his constituency, that found the Article IV consultation discussions particularly helpful. He could accept a decision in favor of either length of cycle, but the views of the authorities should be respected.

Mr. Caranicas commented that, despite the staff's explanations, the points made by Mr. Clark and Mr. Polak remained valid. The human resources of the Fund were stretched to the maximum. Perhaps countries that particularly valued assistance in policy formulation could be helped in ways other than through Article IV consultation missions, for example, through the stationing of a resident representative.

Mr. Polak observed that if a member found staff missions valuable, whether consultation missions or other types, it should be entitled to receive them. However, it was not clear why there had to be a Board discussion in Botswana's case, particularly since the discussion usually took place after the main budget decisions had been taken. Perhaps the best course of action would be to place Botswana on a 24-month Article IV consultation cycle with nonconsultation missions every other year, or even more often if necessary.

Mr. Shaw recalled that the suggestion had been made during the Board's discussion of the consultation cycle that in certain cases a mission could be sent to a country in order to update a report on recent economic developments, which could then be circulated to the Board for information rather than for discussion.

The Chairman observed that in Botswana's case the authorities had placed particularly high value on the staff's appraisal contained in the Article IV consultation reports. If a member was willing to seek the Fund's advice and to follow it in shaping its policies, care should be taken not to weaken that relationship by lengthening the consultation cycle.

Mr. Williams and Mr. Morrell said that they agreed with the Chairman's remarks.

Mr. Mtei said that he would communicate to his Botswana authorities the comments made by Directors; he was confident that the authorities would take that advice into account. On the question of the interest rate differential with South Africa, the authorities were fully aware that they had to monitor closely developments in that country, but they also had to bear in mind Botswana's particular domestic circumstances. The liquidity position of the banks was high and the authorities had not considered it useful to encourage further savings at the moment through an increase in interest rates. It should also be noted that Botswana's international reserves had risen recently beyond the forecast levels, allowing the authorities some room for maneuver. He was sure that the authorities would watch the situation closely, in particular capital outflows.

The authorities were also aware of the need to diversify the economic base, Mr. Mtei continued, a policy stressed in the current National Development Plan, which they had discussed with the staff. However, as diversification into agriculture would face hostile climatic conditions, they were emphasizing the exploitation of the country's plentiful mineral resources. In that regard, they were hampered by the lack of proper infrastructure; while some of the facilities required were large in relation to the size of the economy, the authorities intended to proceed pragmatically.

Commenting on the question of the length of the consultation cycle, Mr. Mtei remarked that his authorities welcomed frequent consultations because they valued the views of the staff and, where possible, they tried to follow the staff's recommendations in their economic management. If the Executive Board were to decide that the cycle should be longer than 12 months, he hoped that informal consultations between the staff and the authorities would be held at more frequent intervals.

The Chairman made the following summing up:

> Executive Directors generally concurred with the thrust of the views expressed in the staff appraisal. While recognizing that Botswana's recent favorable economic and financial performance had resulted largely from the opening of a new diamond mine and enhanced diamond marketing arrangements, Directors were pleased to note that appropriate domestic policy adjustments had contributed much to the remarkable performance of the economy.
>
> Directors noted the relatively comfortable budgetary and external positions currently envisaged for 1984. They observed, however, that maintenance of the recently strengthened balance

of payments was likely to require a tightening of private sector credit policy, as well as a narrowing of interest rate differentials with South Africa.

With regard to the medium term, Directors cited the important potential new sources (coal and soda-ash) of export earnings, and the diversification of economic activity. They cautioned, however, that in view of the large investments involved, and the time required before any major new export projects came on stream, as well as the fact that Botswana's diamond production was approaching its capacity level, import growth would have to be restrained. In that regard, Directors stressed the need to maintain appropriate demand management policies, and they welcomed the authorities' continued use of the exchange rate as a flexible policy instrument.

Directors advocated the continuation of a prudent approach to debt management. Although Botswana's debt service burden was low at present, Directors pointed to the rapid increase that was projected through 1988. Therefore, the authorities were advised to ensure against further rapid increases that could eventually put strains on Botswana's debt servicing capacity. Directors commended the authorities for their continued commitment to an exchange system virtually free of restrictions on payments and transfers for current international transactions; a move to Article VIII status in the Fund was suggested.

In the fiscal area, Directors referred to the authorities' planned shift in the composition of expenditure to provide for the maintenance of existing projects, but they believed that the projected growth in total expenditure in the medium term clearly called for action to expand and to diversify the revenue base. The authorities were also encouraged to exercise great caution in embarking on major investment projects.

Taking into account comments made by Executive Directors, as well as the desire of the Botswana authorities and the close collaboration between Botswana and the Fund, it was envisaged that the next Article IV consultation will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

Decision Concluding 1983 Article XIV Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Botswana, in the light of the 1983 Article IV consultation with Botswana conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Botswana continues to maintain an exchange system that is virtually free of restrictions on payments and transfers for current international transactions.

Decision No. 7623-(84/21), adopted February 10, 1984

2. BURMA - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Burma together with a proposed decision concluding the 1983 Article XIV consultation (SM/84/22, 1/18/84; and Cor. 1, 2/9/84). They also had before them a report on recent economic developments in Burma (SM/84/29, 1/30/84; and Cor. 1, 2/9/84).

Mr. Ismael made the following statement:

My Burmese authorities and I would like to express our appreciation to the staff for the 1983 review of the economic situation in Burma. The two reports provide a fair and objective assessment of the economy, and my Burmese authorities expressed their agreement with the general thrust of the staff appraisal.

The economic aim remains one of promoting economic development with social equity. Within this framework, the Government introduced measures and changes from time to time to increase the efficiency of the economic and social system. One such measure was the comprehensive economic reform initiated in fiscal year 1976/77 (covered in SM/78/31). It was aimed primarily at promoting production incentives and greater price and interest rate flexibility. The results have been remarkable, with GDP growth averaging 6-7 percent and inflation only 3-4 percent. The growth momentum is expected to continue into 1983/84. The staff estimate is for GDP to grow at 6 percent with inflation at a modest rate of 4-5 percent. These are indeed impressive achievements, except for the weakness in exports that emerged with the deep global recession.

Poorer performance in exports in 1981/82 and 1982/83 has drastically limited the scope for rapid development this year with the emergence of external constraints. The staff cited three such constraints: (1) low international reserves; (2) increased debt service payments; and (3) delay in export recovery. The Burmese authorities have been aware of these constraints and have taken the measures required to alleviate the adverse impact on future economic development. It is their view that the basic approach to these problems lies in the vigorous promotion of exports to generate the necessary foreign exchange earnings to finance investment projects.

The potential for significant improvement in exports rests mainly in agriculture. Rice, which is the mainstay of the economy, has benefited over the years from the Government's agricultural intensification program, largely the outcome of the successful implementation of the Whole Township Program to increase rice output. Rice production this year is expected to reach another record level and could provide the necessary support for a more satisfying external position. There exists room for a further increase in rice output and exports. Nonrice crops, especially animal feeds and oil seeds, have considerable export potential, and the Whole Township Program has been extended to these crops to realize this potential. Programs have also been drawn up for export promotion and export diversification in the forestry and mining sectors, as well as agro-based manufacturing industries. However, the scope for growth remains constrained by the limited availability of resources. The best hope for the moment is in the form of increased utilization of existing capacity, provided the strength and durability of the present recovery in exports continue.

In recognition of the constraint imposed by a prolonged slump in exports, the authorities are obliged to introduce a sharp curtailment of imports to match availability of foreign exchange. Indications are that the Government is pursuing this objective with determination. The current account deficit, which peaked at 7.6 percent of GDP during 1982/83, is now expected, according to the staff's estimate, to fall sharply to about 4 percent of GDP for 1983/84. This outcome reflects direct restraint in order to effect a 6 percent reduction in externally financed imports and a 26 percent reduction in cash imports. It is, of course, obvious that such direct restraint cannot be seen as a lasting solution as it would be counterproductive to Burma's long-term development objectives. These are temporary measures until the balance of payments position turns around as a result of the expected rise in exports and of adjustment efforts.

In terms of domestic adjustment, significant efforts are being made to minimize leakage in the external sector. A significant measure has been the effort to accord priority to new investments which contribute directly to export promotion and agricultural and industrial diversification, while reducing the overall level of investment by 2 percent for 1983/84. It is also important to note from the staff report that the public sector budget and credit and money program have been pruned in line with the austerity program. It is in the area of public finance that my authorities see the need for greater efforts. This has, of course, been complicated in part by the deterioration in export market conditions, which depressed export earnings, leading directly to import compression and thereby to lower public sector revenues. The authorities concur with the staff view that the tax base will need to be broadened and that further improvement is required in tax administration. The authorities concede that, although much has been done to improve revenue collection, they are nonetheless concerned about the low buoyancy in the commodities and services tax, which had failed to match the growth in GDP. On the other hand, revenue yield on foreign trade taxes has accelerated.

The Burmese authorities intend to pursue their selective industrial policy for 1984/85 in conjunction with their commitment to continue further expansion of the price adjustment system.

There is, of course, room for better performance, and this is as it should be for a developing economy. The solid growth maintained over the last five to six years has laid a firm basis for future growth. The momentum needs to be maintained. Increased savings and investments are essential, as is price adjustment from time to time, in order to balance costs and prices. As part of the domestic resources mobilization effort, the Government's flexible interest rate policies should contribute significantly to the generation of greater private savings, as they have done over the last several years.

As regards the external debt situation, the authorities stress the need for prudent external debt management by putting the necessary restraint on nonconcessional borrowing. However, it should be pointed out that the bulk (in excess of 80 percent) of Burma's debt is highly concessional with long-term maturities ranging from 29 to 45 years, although debt servicing has been somewhat high (about 28 percent). I would expect the latter to stabilize eventually with the strong export measures undertaken by thge Government. Meanwhile, Burma's need for external resources for its long-term development remains. The potential for development is, I believe, tremendous, as vast resources in minerals, timber, and agriculture remain to be developed.

The Burmese Government express their appreciation for official development assistance, from both multilateral and bilateral sources. I would like to express the hope that such flows would continue.

Mr. Hirao observed that the Burmese economy had been adversely affected by weakening world prices for its export products during 1982, resulting in a sharp increase in the current account deficit. Faced with that difficulty, the authorities had implemented a number of commendable measures that, together, had contributed to the restoration of favorable economic development.

The steady expansion in paddy production had been impressive, Mr. Hirao continued. It had arisen mainly through sharp increases in yield as a result of the Whole Township Program. In SM/84/29, the staff had indicated that nonpaddy crops continued to have great potential. He welcomed the substantial increase in recent years in the number of nonpaddy townships, reflecting the authorities' diversification policy. Over the medium term, expansion in nonpaddy production seemed important because it would not only satisfy domestic food requirements but also help to diversify exports, which were largely rice and teak at present. In the industrial sector, he welcomed the authorities' decision to intensify selectivity in investment policy with a view to making the economy more export oriented. That approach would contribute significantly to reducing the external deficit and the level of capital expenditure in the current fiscal year. In order to strengthen the external position in the medium term, the policy should be maintained and further strengthened.

Commenting on fiscal policy, Mr. Hirao noted that, despite the substantial reduction in capital expenditure through the selective investment policy, the overall public sector deficit remained high at about 11 percent of GDP. Current expenditure was rising rapidly as a result of an increased burden of interest payments while revenue growth remained stagnant. Strengthening public finances, especially through further resource mobilization efforts, was important. He welcomed the authorities' efforts to introduce more realistic and flexible pricing policies in the state economic enterprises (SEEs) through the automatic price adjustment system. The number of price adjustments had increased dramatically since the implementation of that system. The measure was particularly important because it would contribute to strengthening the financial position through increased SEE profits; it could also provide greater incentives to expand output and exports. The authorities should accelerate the extension of the system to a larger number of commodities. In SM/84/29 the staff had shown that the buoyancy of the commodities and service tax and of the private sector income tax had been low in recent years. To increase the elasticity of those taxes, it would be necessary to consider the possibility of broadening the tax base and further improving the tax administration, as Mr. Ismael had noted. On the expenditure side, the authorities should maintain their present policy of restraint in the growth of current expenditure.

Recent monetary developments had been characterized by a rapid increase in credit to the SEEs and a continued decline in credit to the private sector, Mr. Hirao went on. Part of the rapidly increasing credit demand of the SEEs had been met by a high rate of growth in private savings, reflecting high real interest rates. He agreed with the authorities that the steadily increasing private savings had contributed to moderating the rate of inflation. However, for the medium term, it would be important to curb the growth of credit to the SEEs through forceful implementation of the various policy measures that he had just mentioned.

On the external side, Mr. Hirao remarked, export promotion was of vital importance for a country like Burma if it was to secure the necessary imports with which to sustain economic growth. The recent adjustment measures, such as the agricultural diversification program and selective investment policies, were expected to serve that purpose significantly.

Given the sharp reduction in export earnings and the depletion of reserves in the past year, the authorities' decision to cut imports substantially for the current fiscal year was fully justified. The current account deficit was projected to be reduced to about 4 percent of GDP. The import reduction did not appear to have adversely affected growth performance so far. However, at present, capacity utilization remained low despite the authorities' efforts to mitigate the shortage in the supply of imported inputs. He shared the concern expressed by the staff and Mr. Ismael that persistent restriction of imports could be counterproductive to long-term economic development. He hoped that the projected recovery in export prices would allow the authorities to restore the appropriate level of import growth in the near future. With regard to external borrowing, he could support the present prudent policy of not entering into new commercial loan contracts in light of the current high debt service burden.

Mr. Grosche said that the budget deficit closely mirrored the conduct of policies in the SEEs. Their lack of efficiency and profitability put a heavy burden on the whole economy. He welcomed, therefore, the recent steps designed to promote exports while incorporating a more flexible price policy. However, it was doubtful whether such a piecemeal approach could really ensure a thorough rehabilitation of that most important segment of the economy. The SEEs should be much more exposed to market mechanisms, implying that they should have much greater autonomy in production, distribution, investment planning, and the like. Reliance on the public sector budget should be reduced. A more market-related approach would also enhance the growth of productivity and it would, therefore, curtail the need to take refuge solely in price increases.

The SEEs had also been the major recipients of bank credit, Mr. Grosche stated. That pattern would continue because credit to the public sector would rise by 17 per cent in 1983/84 while credit to the private sector would increase by only 4 percent. It was noteworthy that the SEEs as a group paid interest on bank credit whereas their financial assets were held mostly in non-interest-bearing demand deposits. He invited the staff to comment on the relative magnitude of those financial assets and liabilities. He agreed with the staff that the tax base should be broadened and that tax administration should be further improved. However, given the low level of per capita income in the country, a large increase in revenues ought not to be expected.

The external balance of Burma was a source of concern, Mr. Grosche considered, particularly in light of the poor performance of exports in 1982/83. He fully endorsed the authorities' intention to promote exports vigorously, as Mr. Ismael had stated. It was understandable that at the same time they were trying to check the growth of imports by administrative means. However, Mr. Ismael's statement that such direct restraint could not be a lasting solution, as it was counterproductive to Burma's long-term development objectives, was welcome. He encouraged the authorities to make greater use of market-related instruments. In any case, it was important that the improvement in the trade and current account balance for 1983/84 should be at least as great as projected in Table IV of the appendix to SM/84/22. In the present circumstances, it was questionable whether the appreciation of the real effective exchange rate since 1981 was appropriate. A more active exchange rate policy, although inferior to active macroeconomic policies, nevertheless was superior to artificial export promotion schemes and administrative import barriers. Finally, the predicted growth of debt, albeit largely in concessionary terms, underscored the need to take a prudent policy stand. In that regard, he welcomed the statements by the staff and by Mr. Ismael.

Mr. Schneider noted that Burma's overall economic performance had begun to improve in 1983/84. In particular, the authorities' efforts in the areas of investment and pricing policies had reversed the trend of economic deterioration. However, despite that progress, he remained concerned about the still high public sector deficit, the insufficient savings/investment ratio, the low level of international reserves, the increased external debt service payments, and the structural problems. He encouraged the Burmese authorities to put more emphasis on those areas of their development strategy in order to strengthen the structure of the economy and the balance of payments in the medium term.

As a result of the increasing gap between investment and savings during the previous five years, mainly caused by the increase in public sector expenditures, Mr. Schneider continued, the balance of payments had come under pressure and imbalances in the domestic economy had been created. The information in Table V of SM/84/29 indicated that in 1982/83 only 70 percent of gross investment had been financed by domestic savings whereas in 1980/81 the level had been about 90 percent. The intention of the Burmese authorities to reduce the level of investment and to extend the price adjustment system, together with the improvement in the tax administration and broadening of the tax base, would certainly help to increase the savings capacity of the public sector.

Commenting on monetary policy, Mr. Schneider noted that the staff had pointed out that the role of interest rates was limited in credit regulation, but that it had a significant effect on the mobilization of household savings. However, it was puzzling to note that in 1982/83 the weighted average interest rate on bank deposits had been 8.5 percent whereas the weighted average rate on bank loans in the same period had been only about 7 percent. If that subsidy element was not offset in one way or another, the profitability of the Burmese banking system would become a matter of concern. He invited the staff to provide further details on the situation.

In the external sector, the strengthening of export performance was the cornerstone of further improvements in Burma's situation, Mr. Schneider considered. Otherwise, the management of the external balance would depend on import programs. Sustainable export earnings would eliminate unanticipated fluctuations in foreign exchange receipts and they would help to achieve a better balance of payments performance. The authorities' efforts in that area were welcome. Moreover, bearing in mind the relatively high external debt service ratio, timely and rapid implementation of those policies would also contribute to better debt management.

Mr. Ramtoolah commented that Burma's economy had performed quite well in several respects during the preceding few years. Investment had increased in an impressive manner and rice production had expanded. Both developments had contributed to the healthy growth of real GDP by more than 6 percent on average each year in the period 1978/79-1982/83. At the same time, price increases had been low by international standards, hovering around 3 percent annually. In view of the relatively good management of the economy, he would limit his comments to the fiscal situation and the external position.

During the 1982 Article IV consultation with Burma (EBM/82/163, 12/20/82), Mr. Ramtoolah recalled, a few Directors had drawn attention to the possible deterioration in the fiscal situation. Such fears had been justified because the public sector deficit was estimated to have risen to about 13 percent of GDP in 1982/83 compared with an estimated 9 percent a year earlier. However, the authorities were aware of the seriousness of the situation and they were scaling down capital expenditures in the 1983/84 budget while stepping up efforts to bring about an increase in revenue growth. While he realized that the authorities' room for maneuver was limited, he hoped that the cutback in capital expenditure would not seriously jeopardize the country's growth potential.

With regard to the external position, Mr. Ramtoolah noted that the current account deficit had increased to about 8 percent of GDP in 1982/83 from about 5 percent in 1981/82, partly due to a deterioration in Burma's terms of trade. Again, the authorities' room for action was limited, and they had had to cut back on imports--in particular investment goods, because Burma imported a relatively modest amount of consumer goods--in order to reduce the current account deficit to an estimated 4 percent of GDP in 1983/84. It was interesting that the authorities were taking a cautious approach to cutting imports of investment goods so as not to undermine the performance of the Burmese economy at a time when it was seeking to diversify its exports away from rice and teak. Furthermore, the increase in the level of indebtedness, while not alarming at present, should be closely monitored, although the major part was on concessional terms. The debt service ratio, excluding payments to the Fund, was estimated to increase from about 17 percent in 1978/79 to about 29 percent in 1983/84. He agreed with the staff on the importance of continuing prudent debt management efforts.

The points that he had raised with regard to fiscal and external policies were not intended to diminish the praise that the authorities rightly deserved for efficiently managing their economy, Mr. Ramtoolah stated. In particular, he commended them for not allowing the economy's performance to be impeded by any kind of heavily bureaucratic structure. A good example in that regard was the authorities' intention to extend the system whereby the SEEs automatically passed on increases in input costs in order to maintain their profitability. Increased investment by those enterprises would not yield meaningful rates of return if they were not allowed to adjust their prices to reflect increases in their production costs.

Mr. Zhang remarked that Burma provided a good demonstration that a developing country could achieve and maintain steady economic growth with relative price stability if its government pursued a sound and realistic economic development policy. The aim of the Burmese Government's economic policy was to promote development and growth with social equity. The methods that it had relied upon were planning and a strategic role for public investment, accompanied by necessary structural reforms, which had been introduced from time to time to improve the efficiency of the workings of the economic and social system. It was clear that the solid growth maintained during the preceding five or six years had laid a firm basis for future growth. In its appraisal, the staff commented that "the strong output trend that emerged in the mid-1970s is continuing, while inflation is likely to rise only slightly."

Experience had shown that any country embarking upon economic development would inevitably encounter a shortage both of domestic savings and of foreign exchange, Mr. Zhang continued. He had been pleased to learn from Mr. Ismael's statement that the authorities' flexible interest rate policies had been able to generate a rising level of domestic private savings during the preceding several years, and that the trend was expected to continue. However, as in other developing countries facing a similar situation, an increase in domestic savings was a necessary, but not sufficient, condition for sustainable growth. Burma continued to need increases in foreign exchange to finance its imports, particularly the imports of investment goods. When exports fell the Government would have to curtail and to readjust its investment program.

The Government had fully recognized from the outset the importance of the external sector, as well as its constraining influence, in the process of Burma's economic development, Mr. Zhang observed. It had, therefore, introduced an agricultural intensification program to increase rice output, the most important export, as well as other measures aimed at export promotion and diversification. However, the success of those efforts to increase export earnings would depend to a large extent upon world demand, a factor beyond the country's control. At present, the world recession had adversely affected Burma's exports and, thus, its capacity to import. Under such circumstances, the Government had not only found it necessary to curtail its investment program and to introduce other adjustment measures, but it had also been forced to cut back and to impose direct restrictions on imports. Furthermore, the decline in foreign trade had resulted in a fall in tariff revenues, which, in turn, had worsened the budget deficit.

In recent years, Burma had been able to obtain a continuously rising level of concessionary loans that had contributed significantly to its capacity to import and to invest, Mr. Zhang said. The Government's prudent external debt management policy of restraining nonconcessional borrowing in the present situation despite its continuing need for a large amount of foreign resources for economic development should be commended.

Mr. Morrell commented that the Burmese economy had achieved an impressive growth record over a number of years; however, for the past year or so, even its closely regulated economic system could not avoid the impact of a sharp decline in the terms of trade on its export earnings and foreign reserves. The sharp rundown in reserves had forced the authorities to take a number of administrative measures to intensify the restrictions on cash imports. He agreed with the staff's view that the vigorous implementation of export promotion measures and the maintenance of appropriate domestic financial and pricing policies were needed to enable the authorities to restore a flexible policy with regard to the foreign exchange budget for cash imports and to resume the liberalization of the exchange and trade system.

Burma had a highly regulated and controlled economic system that, while successful in containing inflationary pressures, had proved insufficiently flexible to allow price signals to be properly conveyed to economic participants, Mr. Morrell continued. Therefore, he agreed with the staff's recommendation on the need to speed up the extension of the automatic price adjustment system to additional items. He noted that considerable progress in that area had been made recently. There was also a need to strengthen public finances through continued restraint on the overall level of investment. Perhaps ease of access to commercial bank financing had resulted in insufficient discipline being imposed on investment programs. He agreed with Mr. Grosche that the low level of income suggested that not much could be expected from improvements in the tax system.

Ms. Bush observed that Burma had been able to achieve rapid real economic growth in spite of an unfavorable external economic environment. Its relative success had been due in large measure to the implementation of a number of appropriate structural policies. Continued efforts, particularly to reduce or eliminate efficiency-reducing economic restrictions and regulations, would be required if overall economic performance was to be improved and sustained.

There was also a need to extend the automatic price adjustment system, Ms. Bush continued. Such a move would strengthen the financial position of the SEEs, reduce the need for financial support from the Union Government, and place less upward pressure on the budget deficit. Sound financial management and flexible pricing policies would better serve Burma's economy and improve its development prospects. The greater passthrough of import costs to the SEE selling prices would contribute to better financial management.

The authorities' continuing efforts to diversify away from rice to other crops with export potential were welcome, Ms. Bush stated. She agreed with the staff that extending the Whole Township Program to nonrice crops should help to maintain the momentum of agricultural growth in the medium term. On the assumption that the free market portion of that program was extended to crops other than rice, the policy could provide an important incentive in encouraging the kind of growth that the authorities wished to attain.

The staff representative from the Asian Department, commenting on Directors' remarks with regard to the operation of the state economic enterprises, said that the authorities were attempting to allow greater autonomy to the SEEs in order to improve their performance. They were approaching the matter in a step-by-step fashion, focusing at present on greater flexibility in pricing policies through the extension of the recently introduced automatic price adjustment system to a greater number of commodities. There had been some improvement in the capacity utilization of the SEEs in recent years, from 66.9 percent in 1980/81 to an estimated 69.7 percent in 1982/83 for the sector as a whole. However, considerable progress still needed to be made. Within the SEE sector, the banks made considerable profits and were among the major contributors to the Government's budget for two reasons: first, the commercial banks were able to utilize interest-free deposits by other SEEs; second, credits extended to the SEEs were financed to a large extent by the Union of Burma Bank--the central bank--at relatively low cost. With regard to the relationship between the assets and liabilities of the banking sector, the staff estimated that SEE deposits with the banking sector amounted to about one quarter of the credit extended by the banking sector to the SEEs. The staff understood that the SEEs were granted credits to the extent required to conduct their investment and production activities but that they were not to hold financial assets other than those required for working balances. Interest rates on the latter were zero.

Mr. Ismael said that he would convey to his Burmese authorities the interesting comments made by Directors, particularly their appreciation of the development problems facing Burma at present.

Mr. Polak suggested that, in view of the lack of imminent deterioration in Burma's economic situation, perhaps the country could be placed on an 18-month consultation cycle.

The staff representative from the Exchange and Trade Relations Department commented that, although there had been improvements in Burma's economic situation in the past year, the balance of payments position continued to be weak. For this reason, the staff had suggested, and the authorities had agreed, that it would be useful to conduct the consultation discussions with Burma on a relatively frequent basis.

Mr. Ismael said that his authorities did not object to being placed on a 12-month cycle.

Mr. de Maulde commented that it would not be appropriate to discuss the length of the consultation cycle in general at the present meeting. Perhaps the length of the cycle in Burma's case could be left open pending an Executive Board discussion in principle.

The Chairman replied that the Executive Board's discussion in principle had taken place relatively recently; the Board had agreed to clear criteria. An exception had been made in the case of Botswana, the previous agenda item, because of the Botswana authorities' wishes to have the Fund's advice in taking their budget decisions. In Burma's case, the question was whether the weakness of the balance of payments position was sufficient to justify a 12-month cycle or whether the recent improvements in the economy could justify moving to an 18-month cycle.

Mr. Morrell stated that it was important to maintain the 12-month cycle at present. If Burma's situation continued to improve, perhaps it could be placed on an 18-month cycle later.

Mr. Caranicas asked whether there was evidence that the more frequent consultation cycles were placing strains on staff resources.

The Chairman replied that that question would be looked at in the course of the Executive Board's discussion of the budget. In the present case, the resources were available to maintain a 12-month cycle. It seemed that an appropriate solution would be to hold the next consultation with Burma on a 12-month cycle and to review the question at that time.

The Chairman made the following summing up:

> Executive Directors noted that Burma's overall economic situation had begun to improve in fiscal year 1983/84. The balance of payments deficit, which had risen rapidly in the previous year mainly on account of a marked fall in the prices of Burma's major exports, was projected to decline substantially. The strong output trend was continuing, while inflation was forecast to remain moderate.
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> Directors attributed an important part of the recent economic improvement to the authorities' policy efforts, although the gradual recovery in export market conditions had also been a factor. In particular, Directors were appreciative of the selective investment policy, which had contributed significantly to reducing the balance of payments deficit in 1983/84. They also welcomed the authorities' efforts to accelerate adjustments in the prices of the state economic enterprises (SEEs) through the automatic price adjustment system, and to diversify agricultural output and exports through the extension of the Whole Township Program to nonpaddy crops.
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> Directors stressed the importance of continuing those policy efforts in order to consolidate the progress that has been made and to strengthen the economy and the balance of payments over the medium term. They noted that the Burmese authorities agreed that greater efforts were required in the area of public finance. It was especially important, in the view of Directors, to intensify efforts to control current and investment expenditures and to enhance resource mobilization. In that context, the accelerated adjustments of SEE prices, as well as a broadening of the tax base and improvements in tax collection, were considered essential. The overall public sector deficit was forecast to decline somewhat

in 1983/84 but, at more than 11 percent of GDP, it remained a cause for concern; Directors also stressed that more determined measures should be taken to improve the efficiency and financial viability of the SEEs.

Directors considered export promotion crucial to Burma's successful economic management. The ongoing efforts to diversify and to expand primary exports would have to be stepped up. In addition, the extension of the automatic price adjustment system to a greater number of exportables was considered vital in stimulating export production. There was widespread agreement that forceful implementation of those measures would lessen the need for import restrictions that could impair Burma's long-term growth prospects. A more active exchange rate policy was seen by some Directors as a preferable alternative to administrative stimulation of exports and restraints on imports.

Directors noted the rapid rise in debt service obligations in recent years, and stressed the importance of maintaining prudent debt management policy. The authorities' present policy of strictly limiting nonconcessional borrowing should continue until export growth was firmly restored.

It is expected that the next Article IV consultation with Burma will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

Decision Concluding 1983 Article XIV Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Burma, in the light of the 1983 Article IV consultation with Burma conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Burma maintains restrictions on payments and transfers for current international transactions in accordance with Article XIV as described in SM/84/22 and SM/84/29. The Fund encourages the authorities to restore a flexible policy with regard to the foreign exchange budget for cash imports and related import procedures and to resume their liberalization of the trade and exchange system.

Decision No. 7624-(84/21), adopted
February 10, 1984

3. DJIBOUTI - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Djibouti (SM/84/7, 1/5/84; and Cor 1, 1/12/84). They also had before them a report on recent economic developments in Djibouti (SM/84/20, 1/20/84).

Mr. Alfidja made the following statement:

An economy with a large services sector, accounting for about 80 percent of GDP in 1982, and a harsh landscape making any agricultural activity a challenging if not impossible task, Djibouti is slowly adjusting to the postindependence period. Although strategically situated, Djibouti's geographical location can hardly be considered a blessing at present, given the unsettled political situation prevailing in the region and the resulting disruptions exacted on the economy.

Real GDP in Djibouti grew by 3.4 per cent in 1980, a reflection of the expansion of activity in the construction and banking sectors as well as of import taxes. It rose at almost the same rate in 1981, largely on account of higher investment in the public sector, the output of the commercial sector having decreased marginally. The expansion of the public sector continued in 1982, but not strongly enough to compensate for the continuing decline in output in the commercial and transportation sectors. As a result, total output growth declined to 1.6 percent. A further slowdown is estimated to have occurred in 1983 owing to lower spending by foreigners stationed in Djibouti and a sharp decline in investment, notably in the public and construction sectors. A moderate economic recovery is forecast in 1984 thanks to an expected upturn of activities in the fishing, manufacturing, and railway sectors. Inflation, for its part, has slowed from about 12 percent in 1980 to about 6 percent in 1981, and was even negative in 1982 when prices declined by 2.4 percent.

In the fiscal area, following overall surpluses averaging about 4 percent of GDP annually between 1979 and 1981, deficits, including grants, emerged in 1982 and 1983 owing to large drops in foreign grant inflows. Government financial operations are expected to improve in 1984 with the overall deficit forecast to amount to about 6 percent of GDP, down from an average of 8 percent in the two preceding years. This improvement is to arise mainly from a stricter control of the growth of current expenditure, which is now subjected to presidential scrutiny and approval. In addition, no general wage and salary awards have been granted since 1976, with the exception of a moderate upward adjustment in the minimum wage in 1980.

The authorities are also closely monitoring the deterioration of the public enterprises that accounted for about 9 percent of total value added in 1981. While they are aware of the necessity of adjusting prices to reflect costs, they are also concerned about the effects on the low-income segments of the population and the need to safeguard regional competitiveness. Nevertheless, in order to limit the total amount of subsidies, they raised the prices of petroleum products in January 1983 and adjusted electricity tariffs in the early part of the same year to reflect a progressive rate schedule.

In the monetary sector, my authorities are fully aware of the institutional impediments to the formulation and implementation of an appropriate monetary policy. They plan, for example, to entrust the National Bank of Djibouti with central bank responsibilities, currently exercised by the Treasury in cooperation with the commercial banks. A rediscount facility is already being envisaged whereby commercial banks would be able to obtain refinancing through the National Bank. With a view to increasing development financing, the Government of Djibouti created a development bank in 1982. This bank, which became operative in 1983, is already facing a strong demand for funds, given the reluctance of local banks to engage in medium-term financing.

During 1979-82, the external position of Djibouti was characterized by surpluses in the overall balance of payments in each of these years due mainly to large inflows of foreign grants. Consequently, foreign reserves have been at a relatively high level throughout the period. The external situation deteriorated substantially in 1983 when the country recorded an overall balance of payments deficit of about SDR 17 million compared with an annual average surplus of SDR 9 million during 1979-82. The worsening in the overall external account reflected a large drop in unrequited transfers and in both private and public capital inflows.

For 1984, the overall position of the external sector is expected to improve moderately, reflecting a strengthening of the capital account. The foreign indebtedness of Djibouti is small because a large share of foreign aid has been in the form of grants; the debt service in 1982 was only 2.4 per cent of exports of goods, services, and private transfers. It is, however, possible that it may double by 1987 but it is hoped that by then the returns arising from some of the investment projects undertaken will allow the authorities to meet fully their commitments vis-à-vis their creditors.

Improving the performance of the main economic units, particularly the transportation network, and diversifying the economy, mainly in the fishing and manufacturing sectors, remain two principal objectives of the Djibouti authorities. To this end, they have prepared a major investment program with the assistance of the United Nations Development Programme (UNDP) with a view to attracting foreign support. This program was discussed at the donors' conference held in late November 1983 during which the participants regarded most of the investment and development projects presented as appropriate to reduce the structural maladjustments in the economy and the underlying weaknesses of the balance of payments. As many Directors pointed out during the 1982 Article IV consultation (EBM/82/70, 5/24/82), Djibouti's long-term survival and viability are to a great extent contingent on being able to attract new capital, given its meager natural resources and its arid climate.

My authorities have a reservation about the staff recommendation appearing on page 11 of SM/84/7 whereby "a more appropriate exchange arrangement...[is] called for." They are monitoring exchange rate developments and, should the need arise, they will undertake a review of the existing policies on the basis of a comprehensive study of the exchange rate system of the country.

The authorities are prepared to meet all the challenges facing their economy and will endeavor to show themselves worthy of the confidence placed in them by the international community.

Mr. de Maulde commented that any judgment on Djibouti's economic and financial situation had to pay due regard to the particular constraints facing the country, as Mr. Alfidja had stressed. Djibouti was a small country, with about two thirds of the population living in the city of Djibouti, the remainder being mostly seminomadic cattle breeders in rural areas. There were few natural resources. Agriculture could scarcely be developed because of weather conditions and the lack of water. As a result, almost all food had to be imported, and there were practically no exports, other than re-exports. The economy depended almost entirely on service activities related to the military establishment, the port, the railway to Ethiopia, the airport, and the international commercial and financial institutions. Djibouti had little influence on the demand for those services. The country was also heavily dependent on expatriates to supply administrative and technical skills that the educational system was not yet able to provide, and the adult literacy rate remained low. Furthermore, Djibouti was located in a troubled area of the world; in recent years, it had had to admit about 50,000 refugees from neighboring countries.

Despite all those handicaps, Mr. de Maulde continued, the country had been well managed since its independence in 1977, and it had maintained a climate of political and financial stability, although a number of imbalances had developed after 1982 that required corrective measures. The rate of inflation had remained low since 1981 and disbursed debt had remained small, about 11.3 percent of GDP in 1982.

Commenting on fiscal policy, Mr. de Maulde said that the budget deficit should be promptly reduced, as the staff recommended. There had been a high degree of restraint on the wage bill, with no general wage or salary awards since 1976 except for a moderate increase in the minimum wage in 1980. However, the increasing subsidies to public and semipublic enterprises were a matter of concern, and price adjustments should be permitted, with the necessary care, particularly because the expected reduction in external grants would progressively increase the cost of financing the deficit.

After a long series of surpluses, Mr. de Maulde went on, the overall balance of payments would probably record a deficit in 1983. The position was clearly related to the sizable appreciation of the Djibouti franc in the previous three years as a result of its pegging to the U.S. dollar. Certainly, a freely convertible, strong currency was an asset for such a service-oriented economy, but it might be worthwhile examining whether the advantages of the present situation could not be maintained together with more flexible exchange rate management, an approach that would not jeopardize Djibouti's economic diversification efforts. The point was valid in relation to the tourist sector, which had potential for development in the medium term, but which was currently suffering from the high level of the Djibouti franc. It was also true with regard to other services, such as those provided by the port, because there were other competing facilities in the area. Indeed, services would remain for long the main component of GDP and the primary source of external revenues.

Apart from the question of the appropriateness of the exchange rate, the diversification of the economy would continue to hinge on sizable levels of external assistance of a concessional nature, Mr. de Maulde considered. The favorable outcome of the recent UNDP chaired donors' conference was noteworthy. However, the authorities should remain cautious and involve themselves only in carefully selected projects while avoiding projects that were too large for the economy's capacity. The current involvement of the World Bank, which had an ongoing project providing technical assistance to the Central Planning Unit, augured well for success in the implementation of the development plan.

Mr. Suraisry remarked that the Djibouti economy was very small, its resource base was limited, and it was heavily dependent on foreign grants and concessional loans. Commendable progress had been made in developing the services sector and in promoting Djibouti as a regional center for trade and finance, but the economy remained vulnerable to external disturbances and to fluctuations in foreign capital inflows. In recent years, investment had declined, growth had been hesitant, and large imbalances had emerged in the fiscal and external accounts. The outlook for 1984 was not encouraging. Against that background, he agreed with the authorities on the need for a combination of realistic development planning and cautious macroeconomic policies. Such a strategy offered the best chance for correcting structural weaknesses and strengthening the balance of payments over the medium term.

The steps that the authorities had already taken to streamline development planning and to identify viable projects were welcome, Mr. Suraisry continued. The 1983-88 investment program provided an appropriate framework to expand and to diversify the productive base; it was encouraging that the program had been endorsed by prospective donors at the conference in November 1983. The measures currently under consideration to promote private investment were also welcome, in particular, the intention to review incentives under the present Investment Code.

Public finances had weakened in 1982 and 1983, as Mr. Alfidja had pointed out, Mr. Suraisry noted. Therefore, the efforts being made to improve tax administration and to control current expenditures were welcome, as was the continuing commitment to wage restraint in the public sector. There might be scope to improve further the financial position of the public enterprises.

The achievement of a viable external payments position in the medium term would depend, to a large extent, on the consistent pursuit of appropriate domestic policies designed to encourage capital inflows, Mr. Suraisry suggested. Although the external debt position was comfortable at present, he agreed with the staff on the need for a cautious approach to further borrowing, particularly as the debt service ratio was likely to increase sharply in the next few years. He commended the authorities for their continuing commitment to a liberal exchange and trade system, free of restrictions. With regard to the exchange rate, the authorities clearly had to weigh the present benefits of a stable link with the U.S. dollar against the possible advantages, particularly for diversification, that a more flexible policy might bring; it was a difficult issue that had to be kept under review. The authorities intended to monitor the exchange rate system closely, and Mr. Alfidja had referred to a possible study of the system. The authorities might wish to consider whether the U.S. dollar was the most appropriate peg for the Djibouti franc in the present circumstances.

Mr. Camara said that he could go along with the thrust of the staff appraisal and that he agreed with the views expressed by Mr. Alfidja and with the points made by Mr. de Maulde. The Djibouti authorities should be commended for their effort to implement policy measures that had helped to keep their country's economy relatively well balanced. The growth rate of GDP for the previous few years had been about 3.4 percent, with a slight decline in 1982 as a result of rapid population growth and decreased spending by foreigners stationed in Djibouti. Despite that slowdown, however, the rate of inflation had fallen considerably in 1982, reflecting a 2.4 percent decline in prices and an acute appreciation of the Djibouti franc in line with the rising trend of the dollar. It was encouraging that a moderate recovery was forecast for 1984 as a result of improvement in the fishing, manufacturing, and the railway sectors.

Commenting on fiscal policy, Mr. Camara noted that, despite considerable effort by the authorities to raise revenues through improved taxation of consumption and through current expenditure control, an overall budget deficit persisted. The authorities were aware of the problem and they had committed themselves to further improvement of the tax system. As a consequence, budgetary revenue was expected to rise by 6.3 percent in 1984, reflecting additional receipts from increases in selected taxes. On the other hand, total expenditure was projected to decline, as a result of a sharp decline in budgetary investment expenditure as well as the application of stricter expenditure controls and the continued use of quarterly ceilings on budgetary disbursements. It was encouraging that the Government had stepped in strongly in that area, with the Presidency involved in the scrutiny of expenditure controls.

Among other aspects of fiscal policy, no wage and salary awards had been granted for the previous ten years, Mr. Camara continued, and the authorities were committed to observe that policy in the future and even to tighten it. They had also adopted a realistic approach to prices and incomes policy. They had stated that the pricing policies for certain commodities and services had been guided by considerations such as the low incomes of the majority of the population and, in the case of the port and the airport, by the need to safeguard competitiveness. Prices of petroleum had been raised in January 1983, and adjustments had been made in electricity tariffs.

With regard to monetary policy, Mr. Camara observed, the National Bank of Djibouti was playing an increasing role in controlling commercial activities, a step in the right direction. Had the Central Banking Department of the Fund provided technical assistance?

Mr. Chatah remarked that, despite the hesitant growth of Djibouti's economy in recent years, the policies pursued by the authorities since independence had helped the country to avoid the type of financial difficulties that many similarly vulnerable economies had experienced during the same period. The fact that the overall budget and the balance of payments positions had, until recently, been in surplus had helped to mitigate the adverse developments of the previous two years, while maintaining a system free of trade and exchange restrictions. The staff had pointed out a number of areas in which corrective measures were needed in the period ahead to deal with the financial imbalances that had recently emerged and to accelerate the growth of the domestic economy.

In the fiscal area, Mr. Chatah continued, the reversal of the fiscal balance since 1982 could, to a large extent, be attributed to the sharp decline in foreign grants. As indicated in Attachment III to SM/84/7, if grants were excluded from revenue figures, the projected budget deficit in 1984 would be only 60 percent of that recorded in 1982. Notwithstanding that point, he agreed with the staff's emphasis on the need to reduce the fiscal imbalance further in the period ahead. The measures taken by the authorities to increase certain taxes and to limit current expenditures were steps in the right direction. As a number of Directors had noted, there had been no general wage increase since 1976. The efforts to improve the management of public enterprises and to achieve pricing policies that limited their operating losses to the level of foreign grants extended specifically for that purpose were also welcome.

Commenting on the monetary sector, Mr. Chatah noted that the authorities had made organizational improvements intended to strengthen the ability of the National Bank to conduct monetary and credit policies. The structure of interest rates and the margins applied on foreign currency transactions, currently determined by the Commercial Bankers' Association, could play a more positive role in the financial management of the economy when brought under government control. He hoped that a fully operational central bank would be in a better position to promote domestic savings and to pursue monetary and credit policies consistent with overall economic objectives.

With regard to the balance of payments, Mr. Chatah said that he shared the authorities' view that the external position in the medium term would depend largely on transfers and capital flows. Despite the appreciation of the Djibouti franc, there had been no significant upward trend in the trade deficits since 1981. While that position might not be the best indication of whether the current exchange rate was appropriate, a number of factors should be considered in judging the appropriateness of the present exchange arrangement, including the 100 percent foreign exchange cover for the Djibouti franc, a relatively comfortable level of reserves, the need to maintain confidence in the local currency, and the medium-term outlook for the balance of payments. The adequacy of the present exchange system in Djibouti was clearly a question of judgment; he noted the authorities' view on the matter as stated by Mr. Alfidja.

While Djibouti's financial problems were perhaps manageable at present, Mr. Chatah commented, the most important task in the period ahead was to intensify economic development; that process was the only way of reducing dependence on foreign aid and improving the standard of living of the population in the long run. It was clearly a difficult task in view of the severely limited resource endowment of the country. The steps taken to diversify and to strengthen the economic base should be encouraged; in that regard, the outcome of the donors' conference held in November 1983 to assist Djibouti in its development program was welcome.

Mr. Salehkhou stated that Djibouti's economic performance in the previous two years contrasted markedly with the positive developments and relative progress achieved in the 1979-81 period. The deterioration was particularly reflected in the large imbalances in the country's fiscal and external positions in 1983, areas that had traditionally been in surplus. It was also reflected in the significant drop in the growth rate of real GDP, which, at an estimated level of 1.2 percent in 1983, remained well below the 7.9 percent rate of population growth.

Two main factors were undoubtedly to be blamed for such a deterioration, Mr. Salehkhou continued: a weak economic structure heavily dependent on foreign assistance and on transactions with nonresidents, and the adverse international environment. The latter included in particular a substantial appreciation of the U.S. dollar and the world recession that had led to a severe curtailment of nonresidents' revenues and to a decline in foreign assistance, bringing about a turnaround in the fiscal and external positions.

Moreover, those developments had coincided with the continuation of regional disturbances, and the resulting immigration from neighboring countries had deeply affected Djibouti's development since the country's independence in 1977.

While economic deterioration had been induced by developments beyond Djibouti's control, Mr. Salehkhou remarked, the authorities had taken only limited action to counter those adverse developments and they had relied mainly on their substantial external reserves to deal with the deterioration of the previous two years. Obviously, more decisive action was needed for 1984 and beyond to restore Djibouti's economic and financial accounts and to strengthen the economy's overall structure. It was encouraging that the authorities seemed to be aware of the efforts needed and that they had already taken or announced a few measures along the lines suggested by the staff, particularly with respect to fiscal policy. The authorities' actions would appropriately focus on improving tax administration, sharply reducing investment expenditures, and strengthening further the control of current budgetary expenditures so as to limit the recourse to more taxation. However, the action on current budgetary expenditures should go beyond the restraint on wages and salaries, which had been significantly eroded in real terms since 1976; it should aim at broader spending cuts, particularly with respect to budgetary subsidies.

Such subsidies constituted a growing burden for the Central Government's budget, Mr. Salehkhou added. More important, they were the result of a pricing policy that, although it aimed at preserving the regional competitiveness of Djibouti's services sector, had led to increased operating losses and a weakening of the financial position of many public enterprises. Again, the authorities had implemented some price increases in 1983, but there was clearly a need for more realistic pricing policies to improve the performance of the public sector.

Djibouti's development policies were welcome, Mr. Salehkhou went on. They aimed not only at maintaining confidence in the economy but also, more important, at achieving a substantial diversification of the productive base in order to reduce the country's vulnerability to external disturbances. In that regard, the establishment of the Central Statistical Service, the preparation of a six-year investment program in cooperation with the UNDP, and the success of the donors' conference were encouraging; they should ensure a judicious utilization of foreign assistance.

Commenting on exchange rate policy, Mr. Salehkhou said that he had doubts about the adequacy of pegging the Djibouti franc to the U.S. dollar, a system that seemed to lead to large undesirable fluctuations and that adversely affected the economy's external transactions. He invited the staff to comment on the question, particularly on whether alternatives to the present system, such as the adoption of a currency basket aimed at more stability of the Djibouti franc, had been considered. With regard to monetary and credit policies, it was important to aim at a larger role for the National Bank of Djibouti through a significant broadening of its functions. It was not appropriate to have important elements of economic and financial management, such as credit policies and the structure of interest rates, determined by the Commercial Bankers' Association. The Fund could provide valuable technical assistance to Djibouti to enlarge the role of the central bank and to ensure better control by the authorities over the various instruments of economic policy. The creation of a development bank in 1982 and the envisaged operation of a rediscount facility by the central bank were clearly steps in the right direction.

The staff representative from the African Department noted that the Central Banking Department had extended technical assistance to Djibouti from about the middle of 1979 to the end of 1981. However, the assistance had not resulted, as hoped, in an active central bank, primarily because of political considerations in Djibouti. Further technical assistance should await a resolution of those problems. With regard to the exchange rate, the authorities, like many others, had been taken by surprise by the rapid rise of the U.S. dollar, to which the Djibouti franc was pegged. They were beginning to consider the possibilities of alternative systems, but they clearly wished to study the situation before coming to a decision to change the present arrangement. In the meantime, they were stressing the advantages of the current system.

Mr. Alfidja stated that his authorities were willing to consider a study of the exchange system, but it was an area in which they wished to proceed very carefully before making recommendations for change. With regard to the central bank, he understood that a new Governor had been appointed; it was hoped that, as a result, the bank would become more active.

The Chairman made the following summing up:

> Executive Directors expressed broad support for the views in the staff appraisal and generally commended the authorities on their economic management of their small and open economy, given the unfavorable external environment in the region during recent years and the limited natural resources of the country. They noted that diversification of activities toward the non-service sectors should allow for continued and, it was hoped, accelerated expansion in economic activity. Much would depend on the formulation of a medium-term economic policy that would take full account of the results of the recent donors' conference.
>
> In that context, Directors observed that a broadening of the base of the economy through structural adjustment was needed and that investments should be in line with available resources and the absorptive capacity of the economy. To avoid burdensome budgetary expenditures in the years ahead, productive investments that would contribute to strengthening the tax base and the balance of payments should be favored. The overall public sector position needed to be strengthened; Directors noted the projected reduction in the overall deficit in 1984. Continued wage restraint in the public sector, which had been one of the most striking

features of wages policies in the past, and improvements in the financial position of public enterprises, were advisable. In addition, improved tax collection methods and cuts in current subsidies would also be needed in the fiscal sector.

It was considered that the effective appreciation of the Djibouti franc that had occurred as a result of its peg to the U.S. dollar was not conducive to the diversification of the economy, and that an alternative exchange arrangement should be carefully considered.

Directors expressed the hope that the National Bank of Djibouti would become more active in overseeing and guiding the country's relatively large and growing banking sector. Directors also noted that a more active credit and interest rate policy could constitute an important element in the authorities' development strategy.

It is expected that the next Article IV consultation with Djibouti will be held on an 18-month cycle.

The Executive Directors concluded the 1983 Article IV consultation with Djibouti.

## 4. DEVELOPMENT COMMITTEE - DATE OF MEETING

The Chairman stated that, on February 8, 1984, he had had a meeting with the President of the World Bank to discuss the forthcoming meeting of the Development Committee and its agenda. As Directors were aware, one of the most important items on the agenda of the Committee would be the issue of trade and development, for which background papers were being prepared by the Fund and the World Bank. The Director-General of the GATT had been present at the meeting, and he had indicated that if the Development Committee met, as originally foreseen, on April 13, 1984, the day following the meeting of the Interim Committee, he would be unable to attend because of an important ministerial meeting in Asia. Although the Director-General was an observer, he was an observer of particular importance to the discussion in question, and the suggestion had been made that it might be possible to shift the date of the Development Committee to April 11, the day before the Interim Committe meeting.

The President of the World Bank had asked the Secretary of the Development Committee to consult with the Chairman of the Committee on the question, the Chairman continued. It was understood that the Chairman of the Committee had agreed to the change if it was acceptable to his colleagues. The President of the World Bank had informed the Executive Board of the Bank about the possible change. It was to be hoped that, despite the difficulties that the new arrangements might involve, the proposed change would be acceptable to Executive Directors. If it was acceptable, the Secretary of the Development Committee would make the necessary formal arrangements. The proposed change was an ad hoc arrangement; there was no intention to establish a precedent for the future. He invited Executive Directors to inform their authorities of the possible change.

Mr. Wicks said that the proposed agenda of the Development Committee contained important and interesting items. His Minister would, therefore, very much like to be present for the discussions. It had been surprising to have been informed on the previous day that April 11 had been chosen as the date for the meeting of the Development Committee because, while there had been extensive consultations concerning the date for the meeting of the Interim Committee, no consultations had been held on the date for the Development Committee meeting. Whatever constraints might exist, the most important consideration was the availability of the members of the Committee. The situation was particularly surprising because the usual practice was to hold the Development Committee on the day after the Interim Committee; it had been only reasonable to expect that the same procedure would have been followed on the present occasion. If the Development Committee met, as now proposed, on April 11, his Minister would be unable to attend. It would be preferable to adhere to the normal schedule, as originally envisaged, and to hold the meeting of the Development Committee on April 13.

Mr. Polak commented that the consultations to find two suitable days for the meetings of the two committees had been difficult. His Minister, like others, had had to make adjustments to his calendar in order to attend on the two days finally chosen. Indeed, the Secretary of the Fund had informed the Executive Board on February 1 that the Chairman of the Development Committe had agreed to the date of April 13, and in light of the Secretary's memorandum, he had informed the members of his constituency accordingly. The member of the Committee from his constituency would be unable to attend the Development Committee if the meeting were held on April 11. He hoped that the matter could be reviewed before further action was taken.

Mr. de Maulde remarked that the proposed change had a number of disadvantages, including the fact that it was easier for many Ministers to fit into their schedules two days of meeting at the end of a week, as originally envisaged, rather than meetings on a Wednesday and a Thursday, as currently proposed. It was also common for Ministers to hold meetings among themselves in advance of the meeting of the Interim Committee, a situation that might constrain the length of discussion in the Development Committee.

Mr. Grosche and Mr. Caranicas said that they supported the position that there should be no change in the proposed date for the meeting of the Development Committee.

The Chairman noted that no firm decision had been taken to change the date. The proposal was subject to the consent of the Chairman of the Development Committee, which had been obtained, and also to the consent of the members of the Committee. He would convey to the President of the World Bank and to the Committee Chairman the strong preference of Executive Directors for the original date of April 13.

## DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/20 (2/8/83) and EBM/84/21 (2/10/84).

### 5. GRENADA - TECHNICAL ASSISTANCE

In response to a request by the Grenadian authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/84/37 (2/7/84).

Adopted February 8, 1984

### 6. SAUDI ARABIA - TECHNICAL ASSISTANCE

In response to a request by the Saudi Arabian Minister of Finance and National Economy for technical assistance, the Executive Board approves the proposal set forth in EBD/84/34 (2/3/84).

Adopted February 8, 1984

### 7. ZAMBIA - TECHNICAL ASSISTANCE

In response to a request by the Zambian authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/84/35 (2/3/84).

Adopted February 8, 1984

### 8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/13, Supplement 2 (2/7/84) and EBAP/84/29 (2/7/84) is approved.

APPROVED: July 26, 1984

JOSEPH W. LANG, JR.
Acting Secretary