INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/27

10:00 a.m., February 22, 1984

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

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
J. de Groote	
	X. Blandin
A. Donoso	
R. D. Erb	
M. Finaish	S. R. Abiad, Temporary
	H. Kobayashi, Temporary
J. E. Ismael	Jaafar A.
	L. Leonard
	H. A. Arias, Temporary
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
	J. E. Suraisry
J. J. Polak	
A. R. G. Prowse	
G. Salehkhou	
	E. I. M. Mtei
	E. Portas, Temporary
	I. Fridriksson, Temporary
	T. A. Clark
	Wang E.

L. Van Houtven, Secretary
L. Collier, Assistant

Also Present:
African Department: O. B. Makalou, Deputy Director; A. Basu, D. J. Scheuer, A. C. Woodward. Asian Department: J. Schulz. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director; S. Kanesa-Thasan, R. Pownall. Fiscal Affairs Department: R. D. Kibuka, C. A. Sisson. IMF Institute: J. Ntale, O. M. L. Oweka, Participants. Legal Department: G. P. Nicoletopoulos, Director; W. E. Holder, J. M. Ogoola, S. A. Silard. Middle Eastern Department: P. Chabrier, Deputy Director; A. K. El Selehdar, Deputy Director; P. L. Clawson, S. H. Hitti, M. Hosny, S. Kawar, E. M. Taha, M. Yaqub. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Gupta, T. B. C. Leddy, A. J. Mathuran. Bureau of Statistics: W. Dannemann, Director; M. J. Brimble. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, C. J. Batliwalla, S. M. Hassan, L. Ionescu, W. Moerke, I. R. Panday. Assistants to Executive Directors: H. Alaoui-Abdallaoui, R. L. Bernardo, J. Bulloch, M. B. Chatah, M. Eran, G. Ercel, C. Flamant, V. Govindarajan, D. Hammann, J. A. K. Munthali, G. W. K. Pickering, M. Rasyid, J. Reddy, D. J. Robinson, C. A. Salinas, S. Sornyanyontr, A. Yasseri.

1. UGANDA - 1983 ARTICLE IV CONSULTATION, AND REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1983 Article IV consultation with Uganda, together with a proposed decision concluding the 1983 Article XIV consultation with Uganda, and including a review under a one-year stand-by arrangement in an amount equivalent to SDR 95 million or 95.4 percent of the new quota (EBS/84/7, 1/16/84; and Sup. 1, 2/15/84). They also had before them a report on recent economic developments in Uganda (SM/84/36, 2/6/84).

Mr. Mtei made the following statement:

The reviews that the Executive Board has regularly undertaken within the context of the two previous stand-by arrangements with Uganda have kept Directors well informed about the economic and financial situation in the country. It will, therefore, suffice in this introductory statement to highlight the outstanding performance under the current program. All the quantitative performance criteria have thus far been met, and Uganda has been able to draw on the Fund's resources as scheduled. The momentum for growth has been maintained. At an estimated 5 percent, real GDP growth in 1983/84 is significant when viewed against the background of declining output that prevailed in the decade up to 1981 and the unfavorable international economic situation. The rate of inflation also continues to decelerate with the consumer price index now estimated to have declined from 27 percent in 1982 to 20 percent in 1983/84. The overall central government budget deficit as a percentage of GDP is expected to decline from 2.3 percent in 1982/83 to 1.5 percent in 1983/84. The overall balance of payments deficit is now projected to narrow from $77 million in 1982/83 to $19 million in 1983/84, while the accretion to official reserves is expected to reach $15 million. These achievements have been made possible by the continued commitment of the Ugandan authorities to press ahead with the adjustment program within the context of the overall reconstruction efforts.

The recovery in the agricultural sector has been assisted, in part, by good weather as well as the provision of adequate price incentives to farmers. Thus, in addition to the substantial increases already implemented under the current program, the authorities have just awarded further price increases that included an increase of 25 percent for coffee, 50 percent for cotton, 60 percent for tea, 33 percent for tobacco, and 63 percent for cocoa. Steps are also being taken to improve marketing further. For example, private tea estates are to be permitted to export their own tea instead of going through the Ugandan Tea Authority.

The overall pricing policy remains flexible in this connection; the authorities are committed to passing through the effect of progressive depreciation of the first window rate on prices of petroleum products. Accordingly, on January 14, 1984, prices of these commodities were raised by between 12 percent and 50 percent. The flexible pricing policy has also been supportive of the rehabilitation program for industries being implemented with financial assistance from the World Bank. As a result, overall capacity utilization improved from an estimated 20-25 percent in 1981/82 to 30-35 percent recently. In the light of the success achieved thus far, the authorities have decided to speed up disbursement under the second World Bank credit by allowing access to the remaining resources by certain viable public sector enterprises. The preparation of a third reconstruction loan is under way.

The fiscal program remains broadly on track. Although there have been strong pressures which could have called for modification, the authorities have accepted to maintain the original targets. These pressures include the rapid depreciation of the exchange rate and the failure of the Paris Club to provide the debt relief envisaged under the program. Thus, apart from maintaining the overall budget deficit at U Sh 18.1 billion, representing 17 percent of total expenditure, the program still allows for a reduction in domestic arrears by U Sh 4 billion through cash payments and sale of treasury bills. The Government also remains committed to reducing the indebtedness to the banking system incurred toward the end of the 1982/83 budget. To achieve this, the authorities have had to readjust the budget by limiting expenditure growth to the nominal growth in revenue. In this regard, additional expenditure in local currency on both recurrent and development budget would be restricted, and control measures, already in place, are being tightened. Furthermore, the authorities have had to force down civil service wages despite the erosion in the purchasing power resulting from exchange rate action. The authorities expect a modest increase of U Sh 3.5 billion in revenue arising mainly from gains expected to be made from coffee export taxes and non-oil import taxes deriving from further exchange rate depreciation.

As regards parastatals, the authorities remain committed to reviewing tariffs and charges with a view to making them financially viable and thereby reducing the need for budgetary support. To this end, Posts and Telecommunications tariffs were raised by 1,000 percent in November 1983, and external passenger fares for Ugandan Airlines were increased by a total of 50 percent in August and November 1983. Other adjustments put in place since the Board approved the current stand-by arrangement include rate increases for the National Water and Sewage Corporation, which came into effect on February 1, 1984. The authorities have also announced that with effect from March 1, 1984, railway tariffs will be increased by 50 percent for passenger traffic and 40 percent for inland cargo, while electricity tariffs will go up by 25 percent.

The Ugandan authorities have reaffirmed their intention to continue with the same monetary and credit policy stance enunciated when the program was adopted. They have also agreed to retain the original targets, even if they involve new measures. The interest rate policy continues to be flexible. In addition to the increase in interest rates, which was effective from July 1983, rates on treasury bills, as well as on commercial bank deposits and loans, were raised by 2 percentage points on December 1, 1983.

The exchange rate policy remains the centerpiece of Uganda's adjustment program. Progress toward unification of the dual exchange rate system, which has been in place for some time, continues to be made with the progressive narrowing of the spread between the first and second windows, from 1.88 in July 1983 to 1.22 by February 1984. This has been achieved by shifting all non-oil imports together with all exports, other than coffee and cotton, to the second window. On January 1, 1984, non-oil imports by the Coffee Marketing Board and the Lint Marketing Board, together with those by the oil companies, were transferred to the second window. Furthermore, the Government's share of the second-window transactions in the weekly auction is being reduced from 30 percent to 25 percent in order to allow greater access to foreign exchange by the private sector.

The overall balance of payments objective is to reduce the deficit and build up official reserves. To achieve this, imports are to be reduced by $11.5 million and export earnings increased by $9 million. The external debt situation remains difficult, with the debt service ratio estimated to approach 43 percent in 1983/84. In this regard, the uncertainty that surrounds debt relief has become a source of concern to the authorities. In particular, as indicated in the last paragraph of page 12 of EBS/84/7, making the consideration of Uganda's request for debt relief contingent upon agreement on the Israeli claim, when part of the claim is sub judice, when the genuineness or legality of the rest is in doubt, and when Uganda has unsettled counterclaims against that country, is a matter of surprise. Despite the failure of the Paris Club to provide the needed debt relief, the authorities have made a deliberate effort to reduce external arrears in an amount larger than agreed under the program. While the program provided for a reduction of $20 million between July 1, 1983 and June 30, 1984, it should be noted that between July and December 1983, the authorities were able to reduce arrears by $18.3 million, which is $8.3 million more than required for the same period. In view of the uncertainty now surrounding debt relief, they felt that the original target of reducing arrears by $20 million should remain. This would imply a carryover of the overperformance during the first half of the program period into the second half in line with the understanding reached with the staff during the program negotiations, and would thus provide the authorities with the needed flexibility in the management of foreign exchange reserves.

Mr. Clark said that he supported both proposed decisions. The continued progress of the rehabilitation of the Ugandan economy was encouraging, and the authorities should be commended for adhering to a challenging program. In particular, they had made determined efforts to improve the structure of prices in the economy, and they had pursued prudent financial policies. The results were evident: the rate of inflation had declined, economic growth had resumed, and the external position, although still far from comfortable, had shown considerable improvement. The authorities' record of cooperation with the Fund under the third successive stand-by arrangement had continued to be outstanding, as evidenced most recently by the observance of performance criteria for end-December 1983 and the implementation of further price adjustments. He encouraged the authorities to persevere with their efforts so that the gains already made could be consolidated.

The general thrust of fiscal policy was appropriate, Mr. Clark commented. It would be important, however, to guard against the growth of recurrent expenditure to the detriment of development. Notable improvements in expenditure control had already been made, and they were welcome. On the revenue side, he encouraged the authorities to implement any measures to combat tax evasion that might be contained in the forthcoming report by the Fund's Fiscal Affairs Department. As to monetary policy, he noted the steps taken to give interest rates a larger role in the control and allocation of credit, but he urged as a counterpart that a move toward positive levels of real interest rates should continue.

With regard to domestic prices, he welcomed the increases in petroleum product prices, public utility tariffs, and producer prices for the main export crops, Mr. Clark remarked. The continued liberalization of marketing policies and regular upward adjustments of producer incentives were vital to the revival of the productive base in Uganda.

On the external side, Mr. Clark continued, the authorities were faced with uncertainty over securing the external debt relief that had been assumed when the present program had been formulated. The authorities' response had been commendably determined. They had sought to achieve a larger reduction in the overall balance of payments deficit and a bigger increase in gross reserves than originally programmed, while achieving the planned $20 million cash reduction in arrears. At the same time, the authorities had continued to take measures to encourage the convergence of the two exchange rates. He looked forward to reviewing the understandings on exchange rate policy that were due before the end of June 1984. In passing, he noted that the authorities would not use import licenses as an instrument for curbing demand for foreign exchange at the second window.

The Ugandan authorities had exercised prudent restraint in contracting foreign debt, Mr. Clark remarked. The External Debt Management Office would need to keep a continual check on developments in view of the strain caused by the rapid depreciation. Meanwhile, it would be important for the authorities to continue to reduce external arrears.

When the Executive Board had first discussed the present stand-by arrangement in September 1983 (EBM/83/141), his chair had pointed out that the current phase of adjustment was part of a longer-term process of restructuring the Ugandan economy, including the continued involvement of the World Bank, Mr. Clark recalled. It would be important to build upon the balance of payments oriented adjustment carried out with the support of three stand-by arrangements by working to improve further the supply side of the economy. If the present stand-by arrangement were completed successfully, and if the security situation could be improved further, it might be appropriate to consider whether further structural measures should be undertaken in the context of an extended arrangement with the Fund.

Mr. Orleans-Lindsay remarked that the Ugandan economy had so far responded positively to the strong adjustment measures that the authorities had implemented since May 1981 under two successive stand-by arrangements with the Fund. The progress that had been made in steering the economy onto a steady track of recovery and toward a medium-term goal of balance of payments viability was remarkable. During the past two financial years, 1981/82 and 1982/83, the annual growth rate of real GDP had averaged 7 percent, largely reflecting the positive response to the price incentives given to agricultural producers and the exchange rate adjustment that had been undertaken earlier in 1982. The rise in the consumer price index had slowed down considerably despite the sizable depreciation of the exchange rate. Export growth had picked up, recording an annual average rate of 23 percent during the past two financial years. The external current account had somewhat stabilized, and, reflecting large capital inflows, the overall balance of payments position had shown a substantial improvement in 1982/83 compared with the huge deficit recorded in the previous financial year.

The authorities had observed all performance criteria for end-December 1983 under the current financial program, Mr. Orleans-Lindsay commented. Furthermore, they had implemented additional measures for the second half of the program. A third round of increases in the minimum producer prices for agricultural crops had been announced, together with further increases in the retail price of petroleum products and the tariffs of selected public utilities. The additional measures were in line with the authorities' commitment to implementing a flexible pricing policy aimed at stimulating the export sector and at establishing rational cost-price relationships in the other sectors of the economy. The steps that the authorities were taking to make the marketing arrangements in the export sector more efficient were encouraging, but he urged them to monitor developments in the marketing process very closely.

He welcomed the progress that had been made, with World Bank assistance, in rehabilitating various industries and enterprises, Mr. Orleans-Lindsay said. It was encouraging to note the intention to ensure that the additional resources from the World Bank Group were used more efficiently by those public enterprises that had been identified as more viable. Capacity utilization in industry had shown significant improvement and was expected to continue to do so. He therefore welcomed the authorities' commitment to reducing the size of the parastatal sector, to increase efficiency, and above all, to improve the investment climate in Uganda. Those measures should help to attract foreign direct investment as part of the Revised Recovery Program.

In the fiscal area, Mr. Orleans-Lindsay continued, the Ugandan authorities had aimed at a further reduction in the overall budget deficit from the 2.3 percent of GDP achieved in 1982/83 to 1.5 percent in 1983/84. Higher revenue was expected, largely owing to the positive impact of the accelerated depreciation of the exchange rate on export taxes, and to some extent to non-oil import taxes. Since the additional revenue would be offset by reduced receipts from taxes on petroleum products, it was reassuring to note that the authorities were placing the burden of their fiscal adjustment on further expenditure restraints by cutting back outlays on both recurrent and development expenditures, avoiding extrabudgetary outlays, and reinforcing and improving the existing system of expenditure control. There was no doubt that the problems confronting them in the fiscal area were formidable, and he urged the authorities to persevere in taking appropriate measures for correcting the fiscal imbalances.

With regard to credit policy, the authorities were continuing to pursue tight policies in support of their objective of reducing the overall balance of payments deficit and suppressing inflationary pressures, Mr. Orleans-Lindsay remarked. The authorities had strengthened their efforts to achieve greater efficiency in resource allocation by further increasing interest rates. He hoped that their pursuit of a flexible interest rate policy could become more vigorous and thus lead to the attainment of positive real rates of interest in the near future.

Uganda's adjustment efforts over the past two years had centered on the exchange rate policy, which was still of crucial importance, Mr. Orleans-Lindsay commented. Under the present temporary flexible dual system, the authorities had made significant progress toward establishing an appropriate rate under a unified regime. Initial difficulties had been overcome; the convergence of the rates in the two windows was about to take place, with increased volume and coverage of transactions in the second window. It was evident therefore that the system had worked satisfactorily, but he strongly urged the authorities to observe strictly the timetable for its elimination.

The Ugandan authorities deserved commendation and further encouragement not only for showing determination to implement the third financial program successfully, but also for adapting and reinforcing their adjustment policies in the face of the unforeseen setbacks that they had encountered in their external adjustment, Mr. Orleans-Lindsay said. The uncertainties regarding the debt relief that they were seeking through the Paris Club were likely to frustrate the authorities' efforts toward their medium-term goal of achieving balance of payments viability. The authorities had formulated their external objectives under the 1983/84 program assuming debt relief of $15 million. In so doing, they were following the substantial debt relief obtained through the Paris Club under the two previous financial programs, which had helped the authorities to reduce outstanding external arrears from $157 million to $78 million in 1982/83, and by a further $9 million during the current program period. It was encouraging to note that despite the adversities confronting them, the authorities remained committed to a further reduction of $11 million during the remainder of the current program period, and a planned liquidation of the total outstanding amount of $60 million by 1985/86.

It was unfortunate that arrangements for debt relief through the Paris Club were being made contingent upon the settlement of disputed claims, Mr. Orleans-Lindsay considered. He did not wish to criticize the Paris Club or the member country concerned, but an unfortunate precedent was being established that was contrary to the principle of conducting rescheduling arrangements in a spirit of flexibility and pragmatism. He urged the Fund to encourage the parties concerned to exclude such disputes from the Paris Club. Under the current work program ending in June 1984, a staff paper entitled "Fund Role in Relation to the Settlement of Debt Disputes" had been scheduled for Board discussion on May 11. He looked forward to the paper, which, he was sure, would include an adequate examination of that particular issue. Finally, he agreed with the staff appraisal and supported the proposed decisions.

Mr. Polak stated that he also supported the two decisions. Since mid-1981, the Executive Board had followed developments in Uganda with extreme interest. Under successive stand-by arrangements, the country had pulled itself by its bootstraps out of a situation of complete economic chaos. The authorities had done so under unfavorable domestic and international conditions--including a lower amount of aid than had been expected--by relying heavily on liberalizing policies with respect to the interest rate, producer prices, and the exchange rate regime. The perseverance of the authorities deserved warm commendation. Important successes had been achieved: real growth, a greatly reduced inflation rate, a recovery in exports, and an improvement in the overall balance of payments.

Despite the progress attained, however, the Ugandan economy was still functioning at a low level, Mr. Polak noted. Per capita income was only slightly above the low point reached in 1979/80 following a decline of about one third since 1966/67. With special IDA credits, industry had increased its capacity utilization from 20-25 percent in 1981/82 to 30-35 percent at present. Against that background, 5 percent real growth in output could hardly be considered adequate. He encouraged the staff to provide more in-depth analysis of those questions. He detected a tendency on the part of the staff to emphasize the good news about Uganda; although the member's situation represented in some measure a success story, the Board should be aware of possible weaknesses. Specifically, he would be interested to know whether the still-low level of output was mainly due to a lack of capital goods and spare parts, or whether there were more structural reasons that deserved urgent policy attention.

The 1983/84 program included substantial increases in the producer prices of a number of export crops, Mr. Polak commented. Increases ranged from 50 percent to 300 percent; in February 1984, another set of increases of between 25 percent and 60 percent was expected. Combining those two increments, prices would have risen in about one year by 100 percent for coffee and tobacco, 125 percent for cotton, 300 percent for tea, and 550 percent for cocoa. Those increases were far above the inflation rate, which was about 20-25 percent. If they were necessary, the implication must be that one year previously prices had been inadequate; he did not recall that the Board had been apprised of the situation at that time.

One of the objectives of the Fund program was to contain the fiscal deficit, Mr. Polak continued, and some of the ceilings had been set with that objective. However, the staff paper revealed two sources of finance that were not included in the ceilings: the forward sales of coffee and the accumulation of domestic arrears. In previous discussions, he had mentioned that the choice of ceilings did not always appear to be appropriate. The present case seemed an additional example where meeting a target was not a test of substantively correct policies.

On the exchange rate, Mr. Polak said that he endorsed the progress made toward convergence of the sales at the two windows, and noted with interest that the spread between the rates at the second window and in the parallel market seemed also to have narrowed. Both spreads should be monitored; it would do little good if the authorities brought together the rates at the two windows by reducing access at the second window and thus putting undue pressure on a third window. He wondered whether there was a risk that imports could be channeled through the third window because of the latest adjustment under the program, which involved a reduction of $115 million in imports through the second window.

With regard to the unsettled question of the debts of Uganda to Israel, Directors would recall that there had been an exchange of statements on that subject when the Board had last discussed Uganda on September 13, 1983 that indicated that both parties were anxious to find a solution, Mr. Polak remarked. At that time, he had referred to the slow progress made since February 1983--when he had first raised the question in the Board--in verifying the claims against Uganda presented by Israel under the 1982 Paris Club negotiations for Uganda. He had suggested a meeting of the two countries' representatives during the Annual Meetings, but it had not taken place. Later, at a meeting convened by the Deputy Managing Director, Uganda had been represented by a lawyer without authorization to speak on the country's behalf, thus letting slip an opportunity to resolve the difficulties.

He had suggested a direct meeting in the hope of speeding up negotiations, Mr. Polak explained. The Israeli authorities were not committed to any particular method of discussion, direct or through intermediaries, but neither had taken place since the Annual Meetings. Uganda had authorized Morgan Grenfell and Company to make an "independent examination" of the legal validity of Israel's claims. That firm, which represented Uganda in all financial matters, had prepared a statement, which had been sent to the Paris Club, containing a variety of legal doubts about those claims but had made no attempt to discuss the claims with Israel's representatives in London. In the absence of an established list of claims, Uganda had not concluded a bilateral agreement with Israel as required under the Paris Club provisions of December 1982.

The effect of those dilatory and discriminatory tactics against one major creditor on the part of Uganda was of direct relevance to the Fund's program, Mr. Polak stated. The staff had originally formulated the external objectives of the program on the assumption that Uganda would receive about $15 million debt relief from the Paris Club for fiscal year 1983/84. But the Paris Club had taken the view, in accordance with its established principles, that it would not consider future debt relief for Uganda until that country had reached a bilateral agreement with every creditor. As that decision had not been unanticipated by Uganda or the staff, the program for 1983/84 had been tightened to exclude debt relief. It was regrettable that the failure to seek an expeditious agreement on the claims of one creditor had thus led to an even more severe program for Uganda.

Mr. Caranicas observed that, as a result of the reviews undertaken by the Board in connection with the two previous stand-by arrangements for Uganda and the timely consultation discussions, Executive Directors were familiar with the economic and financial conditions of the country. Seldom had the Board witnessed such a turnaround in economic trends as in Uganda. Following a long period of total disintegration and catastrophic mismanagement, the authorities, with the financial help and guidance of the Fund, had resuscitated the economy. During the past three years they had succeeded in implementing two consecutive stabilization programs, considerably enhancing Uganda's economic and financial perspectives, and had entered into a new stand-by arrangement five months previously. They had applied their financial policies with restraint and discipline and had accelerated the external adjustment process while safeguarding economic recovery and price stabilization. More remarkably, with the balance of payments moving rapidly into surplus, the authorities, who had already reduced external arrears substantially, seemed likely also to succeed in further diminishing the remainder in the not too distant future, and even in reducing the outstanding amount of net use of Fund credit.

The information in EBS/84/7, Supplement 1 indicated that Uganda's progress continued unabated, Mr. Caranicas went on. All performance criteria for end-December 1983 had been observed; exchange rates were on a converging line; prices and tariffs of public utilities had been increased. Those results were in accordance with the targets of the Memorandum of Economic and Financial Policies for the second half of 1983/84. As observed during the previous Article IV consultation discussion with Uganda, structural adjustment under the Fund's program had been remarkable. More important, the catalytic effect of the Fund program on the Paris Club and other debt rescheduling, as well as on greater World Bank involvement, had again been demonstrated.

Thus, it would be regrettable if either the authorities or the creditors faltered at the present crucial stage, Mr. Caranicas observed. The difficulties were well described in the staff appraisal in EBS/84/7 and in Table 25 in SM/84/36 on Uganda's external public debt. The current uncertainty concerning the future course of debt relief could be dispelled through the goodwill of all parties. It would be unfortunate to fail during the present phase of the long-term process of Uganda's adjustment; Mr. Polak had underlined the weakness of Uganda's economy, particularly when compared with the country's much stronger position in the early 1970s.

Uganda remained vulnerable to external influences, Mr. Caranicas remarked; its Revised Recovery Program should not be put in jeopardy because of the problem surrounding external debt. He invited the management to give its views on that matter and on Mr. Orleans-Lindsay's suggestion for using the Fund's good offices. In conclusion, he supported both proposed decisions.

Mr. Grosche considered that a great deal of progress had been achieved in Uganda. During the period of the Fund's involvement, the authorities had taken measures that had initiated the external adjustment process and had laid the basis for economic recovery and sustained growth in the future. The adjustment of the exchange rate and the freeing of most domestic prices had been of crucial importance.

He commended the authorities for having met all the performance criteria of the current program for end-December 1983, Mr. Grosche continued, and for having achieved a substantial reduction in the gap between the first and second windows for foreign exchange. He supported the staff proposal concerning the exchange restrictions, in particular the approval of the multiple currency practice until the end of June 1984. By that time, understandings were to be reached with the Fund on exchange rate policy. He noted that on February 10, the spread between the first and second window rates had been only 1.22:1, compared with 3.6:1 at the end of June 1982; given that substantial convergence of the two rates, an early reunification should not be difficult.

Uganda had come a long way during the past two and one half years, Mr. Grosche commented, but a lot remained to be done. The balance of payments position remained weak, and he was particularly concerned about the remaining financing gap during the next three years. Even with significant aid inflows, the gap was projected to remain large, mainly on account of a sharp rise in repurchase obligations to the Fund. The present case was not the only one in which the revolving character of the Fund's resources would be called into question, but it was another one that demonstrated the usefulness of the Fund's catalytic role. He was also concerned about the external debt situation. It had not been possible to negotiate Uganda's request for debt relief on time, and he asked the staff to explain whether it expected the obstacles referred to by Mr. Mtei and Mr. Polak to be removed in the future.

The high debt burden, projected to remain close to an average of 43 percent of exports during the next three years, was another indication that Uganda had not yet overcome its problems, Mr. Grosche commented, but it was reassuring to note that the authorities were aware of the need to persevere with their adjustment efforts. Their commitment to strengthening the current program through a package of new measures was laudable. In particular, the increases in the retail prices of petroleum products and in the producer prices of agricultural products were welcome. Moreover, the higher tariffs for selected public utilities would help to hold the overall fiscal deficit to the program level. In order to strengthen public revenues, a reform of the tax structure and the tax administration was needed. The authorities should act promptly after the report on tax policy being prepared by technical experts from the Fund became available.

On monetary policy, Mr. Grosche said, it was encouraging that the original targets would be retained even if new measures became necessary. Although interest rates had been increased, they were still negative in real terms, and he supported the staff's recommendation that positive rates should be achieved as soon as possible in order to improve the allocation of scarce resources. In sum, he noted with satisfaction that during the third stand-by arrangement Uganda had continued to adjust satisfactorily, the balance of payments situation had improved, and production and exports had increased. It was however clear that in addition to an improvement in the security situation, sustained structural adjustment was needed. He therefore welcomed the authorities' commitment to continuing their efforts and to strengthening the current program. He fully supported both proposed decisions.

Mr. Suraisry noted that the staff paper described the economic situation of Uganda during the 1970s as chaotic. It was encouraging to note the impressive performance that the economy had achieved since May 1981 under three successive stand-by arrangements with the Fund. The determination of the authorities and the quality of the programs had been the driving force behind that performance. The present case proved that firm determination and sound adjustment programs could bring an economy back under control no matter how severe the economic imbalances.

The 1983/84 adjustment program was strong and far-reaching, Mr. Suraisry continued; nevertheless, inflation was still a problem, the debt service ratio was very high, and the overall balance of payments was in deficit. On exchange rate policies, the dual exchange system had been necessitated by the severe shortage of foreign exchange. It had worked well, but a dual exchange system was a short-term solution; adopting a unified exchange system was of particular importance for more effective resource allocation. Progress had been made toward unifying the exchange system and improving the allocation of foreign exchange, and he hoped that that process would continue.

With regard to production and pricing policies, the incipient recovery was primarily the result of allowing the market forces to work more freely, Mr. Suraisry observed. Minimum producer prices for the major agricultural exports had been increased significantly, and the efficiency of the marketing process in the export sector had been improved. It was reassuring to note the authorities' commitment to flexible pricing policies, which was a necessary condition for strengthening the recovery. Equally important was the rehabilitation process for various industries and enterprises that the authorities were undertaking. That process must be continued and should be encouraged by external aid, including the second IDA reconstruction credit.

On fiscal policies, Mr. Suraisry commended the authorities for reducing the overall fiscal deficit from 75.6 percent of total expenditure in 1980/81 to only 29 percent in 1982/83. Further efforts on both the revenue and expenditure sides must be taken, but he sympathized with the authorities in their concern about the rapid increases in the tax burden. It was of the utmost importance that those measures did not create incentives for tax evasion, or hinder the incipient recovery. The technical assistance mission from the Fund's Fiscal Affairs Department should help in that regard. He invited the staff to compare the tax burden in Uganda with that in other comparable countries.

The monetary policy of the past two years had helped to reduce the overall balance of payments deficit and the domestic inflation rate, Mr. Suraisry remarked. Given the need for further progress in those areas, there was no room to relax monetary policy, and he noted that the growth of broad money over the last quarter of the program period was projected to be less than the original program estimate. In conclusion, he agreed with the main points in the staff report and supported the proposed decisions.

Mr. Leonard said that he broadly agreed with the staff's assessment of developments in the Ugandan economy in the period under review and of the measures that should be taken over the last half of the current stand-by arrangement. He supported the decisions before the Executive Board.

The authorities were to be complimented on their commitment to adjustment over the past few years, Mr. Leonard commented. Although the efforts undertaken had, of necessity, been strenuous, they had been amply justified by the resultant improvements in the external balance and in output. The economic situation, however, would remain precarious over the coming years. Continued prudence in the financial policies of the authorities would therefore be required, complemented by structural adjustments that would ensure the efficient use of scarce resources and greater international competitiveness of a broader range of products.

The Fund should continue its contribution to the management of the Ugandan economy for some years to come, Mr. Leonard remarked. With regard to financial resources, the scope of that contribution would have to be carefully managed within the current enlarged access limits. Table 1 of the staff report indicated that by the end of the present program, outstanding Fund credit to Uganda would amount to 366 percent of quota.

There was, therefore, only restricted room for further assistance over what could be an extended period of further adjustment. It was fully appropriate therefore that the authorities had set in train an enhanced series of adjustment measures under the present program and that indicative limits would be set for June-September 1984. Those moves both signaled the need and prepared the way for further significant measures of adjustment after 1983/84. In that period also, the ability to progress toward overall external balance would depend on extensive capital transfers from sources other than the Fund. Unfortunately, as noted by other Directors and the staff, legal problems at present hindered the successful completion of the discussions by the Paris Club, which could play a significant role. He stressed the importance for Uganda to regularize its position vis-à-vis its creditors and to eliminate external arrears.

He welcomed the improvements in producer prices and the efforts to eliminate the temporary dual exchange rate system through substantial devaluations of the first-window rate and a further shift of transactions to the second window, Mr. Leonard commented. Those measures were useful in encouraging higher aggregate exports and in helping to produce a more diversified range of export products. Accordingly, he urged the authorities to reach understandings with the Fund by the end of June on unifying the exchange rate system. Apart from the distorted patterns of trade flows to which the dual rate gave rise, its maintenance over a prolonged period could encourage market participants to exploit opportunities presented by the two rates. Although administrative measures could help to reduce the risk of such illegal activities, a preferable alternative would be the elimination of the existing gap.

He understood that the original intention had been to depreciate the rate of the first window closer to that of the second window, which would have fiscal, pricing, and, to a lesser extent, inflationary implications, Mr. Leonard observed. The authorities had then restricted the supply of exchange at the second window, the expected result being that the exchange rate of the Uganda shilling would depreciate further so that the first-window rate would have to fall further again to bring the two rates into line. That would have even larger implications in the fiscal and pricing areas. However, EBS/84/7, Supplement 1 pointed out that the second-window rate had appreciated; only through that appreciation and a further decline of the first-window rate had the two rates come closer together. As a consequence, there must have been some change in expectations regarding developments in the fiscal and pricing areas; he wondered what the significance of the divergence was and whether its effects had been fully taken into account by the Ugandan authorities.

The authorities had shown commendable restraint in fiscal policy despite increased import costs and higher than expected external debt service payments, Mr. Leonard said. He supported their intention to maintain a tight fiscal stance in the period ahead and urged them to make a major effort to eliminate arrears. Useful areas on which the authorities might concentrate were budgetary control, the reduction and rationalization of the civil service, and a broadening of the tax base through reform of the tax structure and its administration. On that last point, he asked the staff whether the Fund's technical assistance team examining that issue at present would make recommendations on concrete measures that could be taken. He also emphasized the importance of monitoring external aid flows and ensuring that scarce foreign exchange was directed to the highest priority areas.

Regarding credit policy, Mr. Leonard continued, he welcomed the recent round of interest rate increases. Despite those increases and a dramatic decline in inflation, however, the real rate of interest remained substantially negative. While it was important that credit policy should encourage an adequate rate of economic growth, he questioned whether such an outcome would be possible without a better balance in domestic financial markets. Consequently, although inflation should continue to decline, he agreed with the staff that further action could be taken to move real interest rates to positive levels.

The staff paper referred a number of times to internal security and the need for its improvement, Mr. Leonard stated. In his chair's view, security was a vital issue for the growth of investment and the future progress of the economy. At present, close to 30 percent of recurrent expenditure was on security. He invited the staff to comment on the adequacy of that expenditure and on whether it would have to be increased in extending the area of effective control of the security authorities.

Mr. Ismael said that he was in broad agreement with the thrust of the staff's appraisal. He commended the Ugandan authorities for their determination to bring about necessary adjustments and for the success that they had achieved in the past few years. All the performance criteria under the 1982/83 program had been met. In particular, he welcomed the progress in reducing the domestic inflation rate and the overall balance of payments deficit, in bringing about significant adjustment in the exchange rate, and in introducing flexible pricing policies. Those measures would help to promote production for exports and would strengthen the balance of payments position.

The financial policies pursued by Uganda were in the right direction and were characterized by restraint and discipline, Mr. Ismael remarked. As a result, the overall fiscal deficit had declined. In addition, the resort to the banking system for the financing of the fiscal deficit had also been reduced. He welcomed the intention of the Ugandan authorities, in the context of the financial program for 1983/84, to pursue restrictive monetary and fiscal policies, to improve price incentives for agricultural production, to continue to move toward unification of the exchange rate, and to reduce progressively payments arrears with a view to ultimately eliminating all arrears. Progress in those areas was necessary if Uganda were to attain a viable balance of payments situation along with moderate growth and financial stability. Finally, he endorsed the proposed decisions.

Mr. Erb stated that he was in broad agreement with the staff appraisal and supported the proposed decisions. He welcomed the ongoing commitment of the Ugandan authorities to their adjustment effort, and he was pleased to note that progress had continued since the previous Board discussion in September 1983. It was particularly appropriate that the authorities should strive for a better outcome with regard to the 1983/84 program's external objectives in light of adverse developments concerning the amount of external relief to be obtained. The measures adopted for the second half of the program period seemed appropriately designed to ensure a reasonable pace of economic recovery and price stability while accelerating the pace of external adjustment.

Real progress had been made in redressing Uganda's economic and financial situation, Mr. Erb remarked. However, like Mr. Polak and other Directors, he believed that much more needed to be done to establish the basis for better economic growth. Chart 1 of EBS/84/7 indicated that at the present rate of improvement, real exports and real per capita income would not return to their 1967 levels before the year 2000, which confirmed the appropriateness of the focus on measures to stimulate domestic production. That prospect indicated that even more innovative and courageous actions might be required if the pace of economic adjustment were to be accelerated, as seemed warranted.

Regarding production and pricing policies, Mr. Erb continued, he welcomed the increases in agricultural producer prices implemented in February 1984. As his chair had indicated during the previous Board discussion of Uganda, he welcomed an evaluation by the staff of the adequacy of the structure and flexibility of producer prices in a broader context. He invited the staff to provide more background on the criteria or methodology used by the Government to fix relative prices and to adjust those prices over time. With regard to incentives to production, he noted the intention of the authorities to ensure that farmers were paid cash on delivery of their products. In a high-inflation environment such as that existing currently in Uganda, that welcome measure removed an additional disincentive to producers. On a related matter, his authorities were concerned about reported leakages relating to the Coffee Marketing Board. Did the staff have any indication of the size or possible causes of such leakages?

He welcomed the measures described in the authorities' Memorandum of Economic and Financial Policies to encourage greater competition, Mr. Erb commented. He invited the staff or Mr. Mtei to elaborate on the thinking behind the specific measures. To what extent did they result from recommendations by the staff of the Fund or the World Bank? Regarding external sector policies, he noted the staff's view that the Ugandan authorities were continuing their progress toward unification of the exchange regime in accordance with an agreed timetable. Like other Directors, he believed the rates should be unified before the next review under the present arrangement.

With regard to other prices, Mr. Erb welcomed the commitment to pursuing flexible pricing policies. He encouraged the authorities to simplify administrative and other procedures that unduly encumbered the responsiveness of the price mechanism to market developments. As to fiscal policies, the newly introduced measures to control expenditures were laudable. Given recent developments, it was clear that firmer actions to control discretionary expenditures were desirable.

On monetary and credit policies, Mr. Erb noted that with the recent increases in interest rates and the success in reducing inflation, real interest rates had become increasingly less negative. In the present circumstances, he strongly urged the authorities to move to positive real interest rates as soon as practicable. Positive real rates of interest would contribute to reducing private capital outflows and would serve as a disincentive for nonproductive speculative activity.

Regarding the debt dispute with Israel, Mr. Erb said that the Fund had gone as far as it could in offering to bring the two parties together. It was unfortunate that the issue had not been resolved. Although the Fund should continue to offer to bring both parties together, perhaps they could agree on establishing an impartial arbitration process. Meanwhile, it was necessary for the Fund to continue to assure itself that Uganda had taken adequate measures to offset the financing consequences of not reaching external debt agreements, which, unfortunately, meant more stringent adjustments on the part of Uganda.

Mr. Malhotra stated that progress in Uganda toward economic and financial recovery had been impressive. He congratulated the authorities on achieving that turnaround from a very difficult situation that had persisted for well over a decade. Inflation had declined from 106 percent in 1981/82 to about 20 percent in 1983/84, despite a large depreciation of the Uganda shilling. The budget deficit as a percentage of GDP, which had been 6.3 percent in 1980/81, was expected to drop to 1.3 percent in 1983/84. On the external side, the overall payments deficit, which had been $132 million in 1980/81, was expected to narrow to $19 million in 1983/84. Similarly, external payments arrears, which had been over $200 million at the end of May 1981, were programmed to be reduced to $58 million at the end of 1983/84. Adjustment in the exchange rate to date had been impressive, and the two rates had been moving toward convergence. He urged further progress in that direction; a unification of the two rates should be brought about as soon as the authorities considered it feasible.

With regard to supply-side measures, producer prices for agricultural commodities of other products had been adjusted regularly, Mr. Malhotra remarked. However, like Mr. Polak, he was puzzled by the extent of the price increases that had been effected, and he wondered whether these had become necessary due to certain inefficiencies in the system. Those increases were large, especially when considered in the context of the large depreciation that had been taking place, and he wondered what impact they would have on the rate of inflation. The World Bank and the Fund should focus on this area in order to bring about more stable conditions in the economy and to stabilize the exchange rate in the medium term.

Performance on the fiscal side had on the whole been satisfactory, Mr. Malhotra commented, but considerable progress needed to be made over the medium term in establishing a proper revenue and expenditure regime. That area would require the continued attention of the authorities and was one where the Fund could usefully provide more technical assistance.

He welcomed the authorities' resolve to follow prudent debt management policies and to limit nonconcessional borrowing, Mr. Malhotra remarked. The creation of the External Debt Management Office and a Borrowing Committee to monitor and to authorize the incurring of foreign debt should prove valuable aids in improving the debt profile and creditworthiness of Uganda. He regretted that Uganda could not receive the badly needed debt relief from the Paris Club because of an outstanding dispute with a member country. In that context, he endorsed the statement of Mr. Orleans-Lindsay and hoped that further progress could be achieved. The adjustment measures taken by the Ugandan authorities had been drastic, and anything that the Fund could do to reduce the harshness of those measures through an adequate debt rescheduling would be helpful. He also endorsed the view expressed by Mr. Clark that it was time to consider whether the framework of an extended arrangement would not be more appropriate for the future involvement of the Fund. Fund financing was already substantial, but the present case was an extremely difficult one, and the authorities had demonstrated their commitment to the program. A longer-term involvement by the Fund and the World Bank would be essential to Uganda's continued economic progress in the medium term.

Mr. Prowse stated that he broadly agreed with the staff appraisal and supported the decisions. The staff had made an important contribution to Uganda's progress toward economic recovery. The authorities had confronted enormous difficulties, and he commended their decisive implementation of the successive programs. In particular, he welcomed the recent flexible pricing policy but cautioned that clear and consistent criteria should be followed in the adjustment of prices. He supported the continuation of the program and the authorities' commitment to restraint in fiscal and monetary policies.

With regard to fiscal policy, Mr. Prowse continued, the overall deficit had declined from 41 percent of total expenditures in 1981/82 to 29 percent in 1982/83 and was projected to decline further to 17 percent in 1983/84. That last figure, although not alarming in the present case, indicated that there was still a long way to go, particularly on the revenue-raising side.

On credit policy, the proposed reduction in broad money from 39 percent in 1982/83 to 10 percent in 1983/84 was appropriate, Mr. Prowse commented, but he wondered whether the staff had any view on the effect that the reduction might produce on interest rates, which remained negative. He also invited the staff to comment on the effect of positive real interest rates on the mobilization of domestic savings and on the perceived outflow of capital. The authorities should avoid any future recourse to short-term borrowing for budget refinancing purposes; they should limit strictly any nonconcessional borrowing; and they should give the highest priority to reducing external arrears.

Exchange rate policy was the most interesting aspect of the current situation in Uganda, Mr. Prowse concluded. Could the staff outline the dual rate that had been adopted in Uganda--its purpose, success, leakages, and administration? The differential between the two rates had been extremely large at 60 percent in November 1983 and at 22 percent in February 1984, although great strides had been made. Did that differential inevitably lead to considerable loss of foreign exchange to what had been called the third window? Had export receipts been turned in? If not, what proportion of export receipts had been gained? He also wondered why progress toward unifying the rate had not been made more urgently. The second-window rate had appreciated by 17 percent from September 1983 to date; what were the causes of that appreciation and the implications for the management of the dual rate or for the future level of a unified rate? He suggested that the next paper on Uganda prepared for Board discussion should include an annex examining the dual rate, its rationale, and its effects on resource allocation.

Mr. Salehkhou observed that a series of adverse external factors, such as world recession, a deterioration in the terms of trade, and high international interest rates, had deeply affected the development process of most non-oil developing countries in the past decade. In Uganda, those factors had coincided with a long period of mismanagement and with political disturbances that had further exacerbated their negative impact on the economy and on its financial imbalances. Since taking office, the present Government had engaged in the formidable task of rehabilitating the economy and correcting the multiple distortions that had developed in the previous period. Those efforts had been sustained by close cooperation with the World Bank and with the Fund, which had provided extensive technical assistance as well as considerable financial resources under three successive stand-by arrangements.

The review of the current stand-by arrangement with Uganda largely confirmed the good performance and progress achieved under the two previous Fund programs, Mr. Salehkhou commented. Such progress continued to be broad and to cover most objectives of the successive arrangements, particularly with respect to the real economy, the containment of external and domestic imbalances, the correction of price distortions, and the gradual elimination of the parallel market. However, despite the significant progress achieved to date, substantial adjustment was still needed to reach a sustainable balance of payments position and to further the recovery of domestic production and investment. It was encouraging that the authorities were convinced of the medium-term character of their efforts, that they were closely adhering to the program's main objectives, and that in a few instances they were accelerating the implementation of the adjustment policy by aiming at a better performance than projected in the program and by taking additional measures.

He concurred with the thrust of the staff's appraisal of Uganda's implementation of the adjustment program, Mr. Salehkhou stated, and he supported the proposed decisions. With regard to external policies and developments, despite the authorities' clear commitment to domestic and external adjustment, and despite the largely satisfactory performance under three successive Fund programs, the most recent Consultative Group Meeting for Uganda held in Paris in January 1984 had not led to a positive consideration of the debt relief sought by the country to help sustain its adjustment process. The authorities had implemented additional measures to compensate for that debt relief, particularly a reduction in the external current account deficit that was larger than the program target. However, that action would put an additional burden on Uganda and might inappropriately force an unsustainable pace on the adjustment process.

Regarding the exchange rate policy, Mr. Salehkhou noted with satisfaction that progress toward a unified system had been accomplished through a gradual narrowing of the spread between the first and second windows and through the extension of transactions channeled through the auction system. While the acceleration of the unification process was certainly appropriate in view of its positive impact on the external current account deficit and on the more rational allocation of resources, the authorities' efforts to curtail nonessential and luxury imports should be strengthened further.

On production and pricing policies, it was undeniable that the sizable increases in the producer prices of the major export crops, together with the new exchange rate policy, had resulted in a strong recovery of the domestic economy, particularly the export sector, Mr. Salehkhou observed. However, in view of the still-low capacity utilization, further efforts were clearly needed to accelerate the recovery, including the improvement of the investment implementation capacity, the acceleration of ongoing rehabilitation programs, and the streamlining of the parastatal sector.

As to fiscal policy, Mr. Salehkhou continued, the authorities' decision to stick to the originally programmed overall budgetary deficit despite higher external debt service payments was indicative of their commitment to restrictive demand policies. While the reform of the tax structure and its administration would be in abeyance until the completion of the Fund's technical assistance report, it was important that the authorities' actions should continue to focus on raising revenues and extending the expenditure control system. There was certainly a case for reducing the size of the civil service in the less essential services and for a policy of selective wage increases to achieve a better allocation of financial resources. However, he shared the authorities' concern with respect to the considerably depressed level of civil service wages and its adverse impact on any attempt to reform administration. Wages represented only 15 percent of recurrent outlays; thus, there was clearly room for considering a substantial improvement in civil service wages as part of the larger aim of strengthening administrative capacity.

It was obvious that the internal security situation continued to affect both the progress under the adjustment and recovery programs and the confidence of potential investors in Uganda's economy, Mr. Salehkhou concluded. However, the staff report provided only limited information on that point and, in fact, merely noted a continued improvement in the internal security situation. It would have been helpful for a full appreciation of the program's implementation and results for the staff to have included some comments on the interrelationship between the implementation of the program and the improvement in the internal security situation. The staff could also have usefully described the provisions, if any, aimed at cushioning the impact of the program on ordinary citizens and at winning their support for the adjustment effort.

The staff representative from the African Department, commenting on the exchange rate, recalled that when the dual system had been instituted, there had been a large gap between the second window rate and the parallel market rate. In addition, there had been little knowledge about the transactions going through the parallel market and not caught by the official market. The banking system had not participated to a great extent in the initial phases of the auction, so that the third market had been quite strong at that time. As the dual system had progressed, several measures had been taken to facilitate bids at the second window. Licenses were granted and bids were made on a weekly basis and submitted with documentation to a local bank, with cover in local currency or with the necessary domestic credit. Unless there were serious legal problems, bids were supported by import licenses and presented to the Auction Committee, and were accepted if they were the highest bids within that week's pool of foreign exchange. The second window thus provided foreign exchange to private operators through official channels without the problems that had prevailed in the past. In fact, sales had increased from $2 million to $3 million weekly under the new program.

It could not be ascertained how far the spread between the second-window rate and the third-window rate had narrowed, the staff representative continued, but the two rates seemed to have come closer together; the black market rate per U.S. dollar was about U Sh 350, and the second-window rate was about U Sh 300. The authorities were trying to keep the second window open with regular access through bidding.

In the first stage of the dual exchange rate arrangement, the staff representative recalled, the authorities had formed an idea of how the second-window rate would move in view of the mix of monetary and credit policies in place and the foreign exchange that was projected to be available. The staff had also had an idea of how the first-window rate would have to be depreciated in order to bring it closer to the notional second-window rate, but in fact, the second-window rate had not moved as predicted. Therefore, in the latest arrangement the two rates had been expressed as a ratio with no arbitrary level for the second window; the first window rate would be quoted in proportion to the second-window rate, with eventual convergence of the two rates. It had been asked whether a reduction in the sales of foreign exchange at the second window would not widen the wedge between the third-window and second-window rates and thus create a higher parallel market rate. In fact, there was less foreign exchange available at the second window because of that reduction. As the original credit ceiling had been retained, the same liquidity in domestic currency was available to operators with which to bid and buy foreign exchange. As the bidding process was open, higher bids were possible at the second window for the same amount of foreign exchange.

The Ugandan authorities, the World Bank staff, and the Fund staff agreed that there was less smuggling at present, the staff representative stated. The parallel market did not offer the interesting opportunities of the past and was used primarily for capital outflows for political rather than economic reasons.

With regard to the setting of producer prices, the staff representative recalled that under the first two programs there had been no extensive study of the agricultural sector pricing policy on which to base producer prices. Subsequently, the World Bank had launched a study of the agricultural price structure. The Fund mission that had negotiated the present program had referred to the preliminary tables in the study on the cost-price structure for intermediaries and farmers. Therefore, the first price increases that had occurred under the program were also preliminary and were open for reconsideration when the situation became more definite. The latest price increases had been supported by the World Bank.

Two economic criteria had been considered in setting producer prices, the staff representative continued. One was the input costs for farmers; some had been valued at the first-window rate, which had been depreciating, while others had been valued at the second-window rate, which had also been depreciating. Second, past and expected rates of inflation had to be taken into account. A judgment had been made whether the net return after adjustment for real input costs had been consistent with the current inflation rate. Another major point was that if the producer failed to be appropriately remunerated, the foreign exchange that he would bring in for coffee and cotton would not be surrendered in the official channels but would reactivate the parallel market. Although large, the price increases were not out of line when considered against the exchange rate. By midprogram, only coffee and cotton had remained at the first window, where they were at present, while other crops had been shifted to the second window. There were no marketing boards for other crops on the same scale as the Coffee Marketing Board, which accounted for 90 percent of coffee exports.

With regard to Mr. Polak's question whether the staff had adequately described the deficiencies of the system, the staff representative pointed out that the weaknesses were in budgetary management, allocation of government expenditures, and general use of investment funds. Substantial improvement was needed in economic administration and management. The World Bank believed that public administration should be strengthened in key areas and had noted the lack of expertise. The available resources should be concentrated in key ministries, such as that for agricultural development, and emphasis on key areas of government, including parastatal management and rehabilitation, would help to promote the supply side. With regard to the civil service, the size of the less essential services should be reduced, and necessary wage incentives should be provided to the more productive sections.

A study of Uganda's tax system had been completed and would be reviewed by the authorities in March 1984, the staff representative commented. Taxes were about 14-15 percent of GDP, a low figure compared with many other sub-Saharan and African countries. The key problem was weak tax administration, notably with regard to income taxes and customs duties. The report included recommendations to achieve urgently needed administrative improvements.

It had been noted by Directors that internal security accounted for 30 percent of recurrent expenditure, the staff representative recalled. The three categories of security expenditure were police, prisons, and defense. Perhaps domestic security expenditure should be reinforced with more emphasis on domestic police administration. However, as discussed at the Donors' Meeting in Paris in January 1984, there was a feeling not that the actual level of expenditures should increase, but rather that there should be a reorientation of those expenditures.

Two reconstruction credits to rehabilitate enterprises had been offered by the World Bank, the staff representative noted. If administrative procedures could be speeded up to make use of those credits, the productive portions of the public enterprise sector could make some progress toward higher capacity utilization. With regard to marketing procedures, the National Tobacco Corporation, for example, marketed its cigarettes through wholesalers and traders who were designated by the Government. Under those conditions, large profits accrued, and, in effect, prices were hiked up, with only a limited number of people allowed to sell the product. The staff had advised the authorities to liberalize their marketing procedures and to make their goods available to retailers and wholesalers through competition. In addition, farmers had been able to sell crops only to designated purchases. The staff had pointed out the difficulty of administering such regional zoning.

Leakages of foreign exchange had been discovered by the staff during a survey of weekly receipts from foreign sales, the staff representative explained. In certain months, coffee receipts had not been at the expected level. Furthermore, producers had not been paid on time. Subsequently, the authorities had tightened their control over receipts so that they would be properly recorded and repatriated; negotiations with a foreign consultant firm to survey export receipts were currently under way.

With regard to interest rates, the staff representative from the African Department said that there had been several increases since 1981; however, some had been motivated by defects within the interest rate structure. For example, at one point the rate of remuneration on treasury bills had been greater than that on time deposits or savings deposits. In the past, there had been instances when interest rates had been drastically negative: for example, in 1981 inflation had been 100 percent while interest rates had been 7-9 percent. The real rate had become less negative through a decrease in the inflation rate and an increase in the nominal rate. One result was a more responsible demand for loans; the choice of projects was more focused because of the higher rates. In addition, banks had more scope to raise resources; the banks had recorded marked deposit activity, but because of credit constraints it had not been possible to absorb all those resources and to make loans available. In conclusion, the staff would include in the next report on Uganda an annex on the dual rate and a broader discussion of its rationale.

The staff representative from the Exchange and Trade Relations Department, commenting on the claims of Israel vis-à-vis Uganda, said that they were disputed by the Ugandan authorities and therefore were not included in the figure for arrears under the program. With regard to the proposed staff paper on the role of the Fund in relation to the settlement of debt disputes, it was currently under preparation and was due to be discussed by the Board on May 11, 1984. The paper would deal with the question in the context of the Fund's jurisdictional responsibility as well as of the use of Fund resources. It was also expected that the question of a possible "good office" role for the Fund in the settlement of debt disputes would be dealt with in the paper.

The Director of the Legal Department observed that the staff endorsed the hope expressed by many Directors that the parties would be able to resolve their disputes, thus enabling the Paris Club to take a decision regarding the restructuring of Uganda's debt. The Fund appeared merely as observer and could neither tell the Paris Club what rules to follow nor influence its decisions. The matter was not within the Fund's jurisdiction relating to exchange measures.

The Deputy Managing Director recalled that Mr. Polak had indicated that the Israeli authorities were not attached to any particular form of contact in resolving the question of Uganda's debt to Israel. He himself had received a different impression from an earlier meeting and subsequent correspondence. The most recent development had taken place at the Paris Club meeting early in February, when a letter from the Ugandan Minister requesting further debt rescheduling had been discussed briefly. An Israeli delegate had indicated that his authorities were seeking an amicable solution to the problem through the assistance of a third party.

Mr. Leonard said that he had noted the explanation by the staff representative from the African Department that concentration had shifted from the absolute levels of the exchange rate at the first and second windows to the ratio between them. However, the authorities could not be indifferent to the convergence level of the rates, because it had implications for revenue, prices, and inflation. What was the significance of the fact that the rate had moved up at the second window and that the two rates might come together at a somewhat higher level than originally envisaged?

The staff representative from the African Department explained that when the program had been put in place there had been certain assumptions regarding the first-window and second-window rates. The second-window rate had averaged about U Sh 300 = US$1 throughout January and the first week of February. The exceptionally low rates in late 1982 and early 1983 had not seemed to reflect the rates at which the second window would stabilize, especially keeping in mind that the parallel rate had been hovering around U Sh 350 per dollar. The producer prices set for products other than coffee and cotton assumed a second-window rate of U Sh 300 per dollar. Taking into account the new scenario for the second-window rate and the direction of the first-window rate, the staff had projected a path of convergence, stipulating that the first-window rate could not appreciate, even if the second-window rate did so, so that the gap would not widen unnecessarily. Given the path of the first-window rate, the staff had used a six-month average rate in calculating the cost-price structure for coffee and cotton. Once the calculations had been made, the staff had looked at the cost-price situation of the Coffee Marketing Board and had determined how the coffee receipts were to be shared among coffee producers, taxes, and the intermediaries.

With regard to the appreciation of the second-window rate to U Sh 300 = $1 by February 1984, the staff representative said that the rate would not have unforeseen consequences on the price situation or the program, because that rate had prevailed through January. When the indicative targets for credit expansion had been exceeded at the end of June 1983, the rate had been affected. On the other hand, when credit had been cut back, the rate had responded in the opposite direction. The scenario had included the fact that if liquidity were squeezed, the second-window rate would not depreciate as much as it would otherwise. The staff had forecast a higher rate for the second window than that prevailing during the staff mission.

Mr. Mtei expressed his appreciation to Executive Directors for their views on the Ugandan economy, which he would pass on to his authorities. The authorities were looking forward to a restructuring of their tax arrangements; some innovative revenue measures, especially when the exchange rates were unified, would be essential. They therefore hoped that the Fund's Fiscal Affairs Department report would be completed soon, to assist them. Financial policies in Uganda had been characterized by restraint and discipline since 1981, and it was his authorities' intention to continue that stance. With regard to expenditures, civil service wages were low because of the depreciation of the currency over the past two years and inflation. The authorities were looking into the question of the size of the workforce, and were considering selective wage increases. As the civil service was part of the infrastructure to bring about economic rehabilitation, his authorities could only act within certain limits.

There had been substantial expenditures on security, Mr. Mtei continued, but his authorities stressed that they had been essential because of recent developments. In fact, the present program could not have been discussed had there not been as normal a security situation in Uganda as possible.

On monetary issues, efforts had been made to ensure that the private and productive sectors of the economy were adequately financed, Mr. Mtei remarked. Steps had been taken to make interest rates less negative and to move toward real positive interest rates. With regard to debt management, his authorities would continue to be as prudent as possible. Proper debt management would be facilitated by the establishment of the External Debt Management Office in the Bank of Uganda. His authorities would avoid nonconcessional foreign borrowing as far as possible as part of their effort to minimize the debt problem.

On the question of claims by Israel, Mr. Mtei recalled that Directors had referred to the "upheaval," "total disintegration," and "catastrophic mismanagement" of the Ugandan economy over the years before 1981. Under such circumstances, it was possible for individuals on either the creditors' or the debtors' side to exploit such a situation and either to neglect to pay or to misappropriate payments. Therefore, the Ugandan authorities had appointed technical consultants to examine the validity of the claims and their legal background. The fact that one of the claims was actually before a court and that the technical consultants had expressed doubts regarding the legality of the remaining claims should satisfy the Paris Club and enable it to consider the Ugandan request for debt relief with the knowledge and confidence that, when the matter was resolved, the Ugandan authorities would accept their liability.

Continuing, Mr. Mtei stated that the Ugandan delegation at the recent Paris Club Consultative Meeting had explained that both the existence and the amounts of some claims by Israel against Uganda were disputed; some debts were sub judice; some had no legal basis; others were affected by the sovereign immunity of Uganda. In addition, the Government of Uganda had large counterclaims against Israel. Morgan Grenfell and Company, the technical consultants, was examining those parallel claims. The matter was further complicated as there were no diplomatic relations between Uganda and Israel, and it would not be possible to hold direct discussions. The technical consultants had however been instructed to pass on all their findings on the claims to the Israeli authorities for their study and response. He urged Executive Directors to persuade their authorities who attended the Paris Club meetings to be more flexible in the treatment of Uganda, which was genuinely attempting to reschedule its debts and to solve its problems.

With regard to the ownership of expropriated properties, his authorities had announced that former owners were welcome to return and repossess those properties, Mr. Mtei said. A chairman of the Verification Committee had been appointed, and discussions on repossession of certain properties had commenced. In conclusion, he emphasized that his authorities were determined to manage their economy as prudently as possible, but that there were developments outside their control that would make the recovery tenuous and unsustainable, unless the Fund, other donors, and creditors acted with flexibility.

Mr. Polak commented that the Fund and the Paris Club had an important principle in common--dislike of discrimination. The Director of the Legal Department had persuaded him that there was no discrimination in the Fund, but in the Paris Club Uganda had not treated all creditors similarly and had not reached agreement with one of them. If the Paris Club felt that discrimination existed, the Fund should not lobby that organization to ignore it.

Mr. Malhotra said that it would not be appropriate for the Fund to decide immediately that it had no role to play in the matter. Mr. Mtei had explained that there was a dispute with regard to Israel's claims and that the Ugandan authorities had appointed lawyers, who were in touch with the Israeli authorities, to examine the matter. Since the authorities had agreed to look into the dispute, it could not be assumed that there was discrimination and that the Paris Club could not proceed. He respected Mr. Polak's sensitivity and experience, but the case should not be prejudged. In the spirit of helping a member in difficulty, the Fund should do everything possible.

Mr. Polak commented that in another case involving a dispute concerning amounts owed, an independent accounting firm had been appointed to reach a solution. It had been suggested that if agreement were not reached, a certain amount would be put in escrow. Perhaps a solution along those lines would be appropriate for Uganda.

The Chairman stated that the Board's comments would be conveyed to the Paris Club secretariat, along with the Fund's offer to provide any good offices that could facilitate a solution of the problem.

Mr. Mtei pointed out that in the case cited by Mr. Polak, the existence of the debt had been accepted; the question concerned how much was due and in what proportions it should be paid. In the case of Uganda, not only were the amounts being queried, but, because of counterclaims, there was a question whether Israel or Uganda should be paid.

Mr. Caranicas commented that the Fund should offer its good offices to help solve a complex and delicate matter.

The Chairman remarked that it was not uncommon to have differences between creditors and debtors in such matters until agreement was reached. The Fund would explore ways in which the Fund could provide its good offices compatible with the Articles of Agreement. With goodwill on both sides, a solution would be reached.

The Chairman then made the following summing up:

> Executive Directors agreed with the thrust of the views expressed in the staff appraisal and warmly commended the Ugandan authorities for continuing a strong adjustment effort under the current financial program. In particular, they supported the accelerated progress toward unifying the dual exchange arrangement, which had helped to increase export incentives, especially

for noncoffee crops, and to reduce distortions in resource allocation. Directors noted that realistic exchange rate adjustments in conjunction with a flexible price policy and tight fiscal and credit policies had contributed to narrowing the imbalances in the fiscal and external accounts, containing the domestic inflation rate, and continuing the process of economic recovery. They welcomed the further reduction in Uganda's external arrears. They also welcomed the recent further adjustments in producer prices and incentives and stressed the importance of a rational cost-price structure.

Directors emphasized that Uganda needed both to maintain a reasonable pace of economic recovery and to accelerate the adjustment process in the medium term so as to eliminate the remaining external arrears, ease the external debt burden, and attain a viable balance of payments position. In this context, they stressed in particular the need to continue flexible exchange rate and price policies and to move decisively toward a unified exchange regime through more rapid depreciation of the exchange rate at the first window, at least in line with the agreed timetable. Directors also stressed the need to maintain appropriately restrained fiscal and monetary policies, and to move toward positive interest rates in order to provide incentives for financial savings and a better allocation of resources. The high debt burden and the importance of debt relief for Uganda were noted; in that context, the hope was expressed that the obstacles to appropriate action by the Paris Club would soon be removed and that the Fund would use its good offices to that effect.

Several Directors noted that it was necessary to improve substantially the administrative framework for economic management, especially in the areas of tax administration and public expenditure control--particularly of recurrent expenditures--the mobilization and use of external assistance, and the implementation of appropriate reforms in the public and mixed enterprises. They urged the authorities to act promptly after the Fund's technical assistance report on tax policy becomes available. Some Directors underscored the importance of supplementing prudent financial policies with greater selectivity of projects under the current recovery program.

Despite the recent successes, Directors stressed that the levels of agricultural and industrial output remained low and that Uganda still had a long way to go to revive its economy and to restore a viable balance of payments position. The hope was expressed that the outstanding record of cooperation between Uganda and the Fund, as well as with the World Bank, would continue in the years ahead. It was also noted that while the scope for additional financing by the Fund was limited, further collaboration between Uganda and the Fund and the World Bank would be useful in the framework of a continued structural adjustment effort.

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

The Executive Board then took the following decisions:

Decision Concluding 1983 Article XIV Consultation

1. The Fund takes this decision relating to Uganda's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1983 Article XIV consultation with Uganda, in the light of the 1983 Article IV consultation with Uganda conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. As described in EBS/84/7 (1/16/84), Uganda maintains exchange restrictions on payments and transfers for current international transactions, including restrictions evidenced by external payments arrears, and a multiple currency practice, all of which are subject to approval under Article VIII, Sections 2(a) and 3, respectively. The Fund welcomes the intention of the authorities to progressively reduce payments arrears and to eliminate the multiple currency practice. In the meantime, the Fund grants approval of the multiple currency practice until June 30, 1984, and of the existing exchange restrictions on payments and transfers for current international transactions until October 31, 1984.

Decision No. 7633-(84/27), adopted
February 22, 1984

Review Under Stand-By Arrangement

1. Uganda has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Uganda (EBS/83/180, Sup. 1, 9/19/83) and paragraph 26(g) of the memorandum of economic and financial policies annexed to the letter of June 24, 1983 attached to the stand-by arrangement.

2. The letter of November 13, 1983 from the President and Minister of Finance, together with the annexed memorandum setting forth the economic and financial policies that Uganda will pursue during the second half of 1983/84, shall be attached to the stand-by arrangement for Uganda, and the letter dated June 24, 1983 shall be read as supplemented by the letter of November 13, 1983.

3. Uganda will not make purchases under the stand-by arrangement for Uganda that would increase the Fund's holdings of Uganda's currency in the credit tranches beyond 25 percent of quota, or increase the holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota, during any period in which any of the performance criteria set out in paragraphs 25(a), (b), (c), (e), (f), and (g) of the memorandum annexed to the letter of November 13, 1983 are not observed, or if at any time the performance criterion set out in paragraph 25(d) of that memorandum is not observed.

Decision No. 7634-(84/27), adopted
February 22, 1984

2. SUDAN - STAND-BY ARRANGEMENT - REQUEST FOR EXTENSION AND MODIFICATION

The Chairman made the following statement:

The last tranche of SDR 25.5 million under the current stand-by arrangement for Sudan is now available upon the verification of observance of the performance criteria relating to credit ceilings, but could not be purchased because Sudan is in arrears (a) to the Fund and (b) on debt service owed to bilateral creditors. Sudan has now made arrangements to pay all the arrears to the Fund not later than by February 24, 1984.

The only other obstacle in the way of effecting the purchase is the performance criterion relating to arrears to bilateral creditors with which rescheduling agreements have been concluded on the basis of the global framework for debt relief established at the Paris Club meeting of February 3-4, 1983. The Sudanese authorities have informed us that this delay is due to disputes concerning amounts owed and that work on verification of the obligations is being carried out with the assistance of the international accounting firm of Peat, Marwick, Mitchell and Company. They expect to complete this work by March 5, 1984 and to make payments to the satisfaction of individual creditors by then. If they are unable to do so, the authorities have proposed to pay into an escrow account on March 5, 1984 an equivalent sum based on the preliminary tally made by the accounting firm of Peat, Marwick, Mitchell and Company of all the obligations. This will represent their good faith effort to observe the relevant performance criterion. In order to have more time to meet this particular performance criterion, the Government of Sudan has requested extension up to March 9 of the period of the stand-by arrangement for Sudan, which is due to expire at close of business today. The staff supports the requested extension and modification subject to Sudan's becoming current on its financial obligations to the Fund. It is proposed that an extension be granted until February 24, 1984 to enable Sudan to discharge its overdue financial obligations to the Fund, and, upon its having done so, the extension will be prolonged through March 9, 1984.

The staff representative from the Middle Eastern Department explained that there were three factors involved in the present case: the observance of credit ceilings, the arrears on debt service to bilateral creditors under the overall Paris Club agreement for debt rescheduling, and the arrears to the Fund. Sudan had paid $22 million of the $31 million due to the Fund; the remainder would be paid on February 24, 1984. The Sudanese authorities had provided additional information with regard to the credit ceilings, and the staff was satisfied that the performance criteria had been observed. The remaining issue was the payments to those bilateral creditors who had signed the rescheduling agreement; the present extension was being sought by Sudan, which wished to have more time to reach agreements and to make payments.

Mr. Blandin said that he was pleasantly surprised that performance criteria relating to credit ceilings had been observed, as information provided a few weeks previously had implied otherwise. With regard to Sudan's request for an extension and modification of the stand-by arrangement, such a waiver usually required a detailed paper submitted about four weeks before Board discussion. He would have appreciated more information and the opportunity to consult with his authorities; therefore he requested a postponement of the discussion until the afternoon. If other Directors would go along with that proposal, the staff could then provide information on the credit ceilings.

Mr. Suraisry commented that Sudan had met the performance criteria relating to the credit ceilings; the authorities had made arrangements for payment of the arrears to the Fund by February 24; as to the arrears owed to bilateral creditors, the authorities had shown their goodwill by hiring an international firm to settle that dispute. Therefore, he could go along with the extension, and he supported the proposed decision.

Mr. de Groote stated that he supported the staff's recommendation for an extension and modification of the stand-by arrangement. First, the credit ceilings had been observed; it would have been useful to have had more information, but he trusted that the staff had investigated the matter with great care. Second, the arrears vis-à-vis the Fund would be settled. Third, the extension and modification of the stand-by arrangement would enable Sudan to implement the verification of its obligations to bilateral creditors and thus observe the relevant performance criterion. He therefore supported the proposed decision, which would enable Sudan to have the full benefit of the stand-by arrangement.

Mr. Clark noted that he had no problem with the extension, but would welcome more time for consideration of the waiver; he suggested postponing the discussion until the afternoon.

Mr. Erb said that he could go along with the extension. Could the staff say whether a Board discussion would be required before the final tranche under the stand-by arrangement could be drawn, or would it be possible for Sudan to draw upon confirmation by the staff that all the conditions had been met?

The staff representative from the Legal Department explained that once the Board had taken the present decision, Sudan could draw without any further Board discussion as long as it was current in its obligations to the Fund by February 24 and had either paid or established an escrow account with respect to the amounts due on the rescheduled obligations. At the present meeting, it was not a waiver that was being proposed, but rather an extension that would enable Sudan to have more time to comply with the program together with a modification that would clarify the mode of payment acceptable to the Fund. The staff had recommended a method that would enable Sudan to discharge its commitments while safeguarding the interests of the Fund and the creditors.

Mr. Malhotra stated that he supported the proposed decision.

Mr. Leonard said that both the elimination of the arrears to the Fund and the finalization of the Paris Club rescheduling were important. In view of the undertakings given, he supported the decision. However, he sympathized with the position of other Directors and would be prepared to postpone the discussion until the afternoon.

Mr. Polak inquired whether the wording in the middle of the second paragraph of the Chairman's statement--"and to make payments to the satisfaction of individual creditors by then. If they are unable to do so,"--meant that the authorities were unable to reach satisfactory agreements, or that they were unable to pay. Would the authorities put dollars or local currency in an escrow account?

The staff representative from the Middle Eastern Department explained that the phrase "if they are unable to do so" referred to the inability of the authorities and a bilateral creditor to reconcile the amounts owed to the creditor. The amount to be paid into an escrow account would be in foreign exchange. Although the mechanism had not been discussed, the staff perceived the escrow account to be used only for payment to creditors when the disputes were resolved.

Mr. Wang said that he fully supported the proposed decision.

Mr. Caranicas said that he also agreed with the proposals, because the Sudanese Government had shown good faith. However, he appreciated Mr. Blandin's and Mr. Clark's position, and he would have no objection to postponing the discussion until the afternoon.

Mr. Erb also agreed that the matter could be taken up in the afternoon.

Mr. Salehkhou said that, although he was reluctant to disclose the overdue financial commitment of another nation, the lack of an effective response and the delay tactics adopted by the Sudanese authorities unfortunately necessitated that approach. During the discussion for the review under the stand-by arrangement for Sudan held on September 14, 1983 (EBM/83/140), his chair had referred to Sudan's financial obligations to the Islamic Republic of Iran. Accordingly, the Chairman had urged the Sudanese authorities to "treat all its creditors in a nondiscriminatory manner in debt rescheduling" in the summing up of that discussion. Those debts were long overdue, and the Sudanese authorities had delayed negotiations.

Through the good offices of the Fund management and Mr. Sangare, a meeting had been arranged in late September between the Sudanese and Iranian authorities, Mr. Salehkhou recalled. It had been agreed at that meeting that the Sudanese authorities would submit a letter requesting rescheduling and offering all the details and specifics of their proposal. That letter had arrived three months later, and had contained no specific proposals.

In view of the desire of his Iranian authorities to reach a satisfactory and speedy settlement with the Sudanese through the good offices of the Fund management, Mr. Salehkhou requested that the proposed decision should also state that the Sudanese purchase be made conditional upon agreement between Sudan and the Islamic Republic of Iran. Since the Fund had made debt repayment by Sudan to other creditors a performance criterion, in a spirit of uniformity of treatment of all Fund members such a performance criterion should also include the Sudanese debt to the Islamic Republic of Iran.

Mr. Laske said that he had no difficulties in going along with the proposed decision, although he shared some of the concerns expressed by Mr. Blandin and Mr. Clark.

Mr. Donoso, Mr. Arias, Mr. Prowse, and Mr. Portas supported the proposed decision.

Mr. Erb asked whether his understanding was correct that Sudan would make payments by March 5 to those bilateral creditors with which it had agreements, and that only the amounts due to bilateral creditors with which it still had agreements would be put into escrow accounts.

The staff representative from the Legal Department agreed that the performance criterion would call for either payment or placing the amount in escrow by March 5 with respect to those creditors with which agreements had been reached under the aegis of the Paris Club. With respect to other creditors without bilateral agreements, there would be no further commitment on the part of Sudan to reach an agreement by March 9. The staff was applying and carrying forward a performance criterion in the existing stand-by arrangement that was limited to arrears on already rescheduled obligations, evidenced by the bilateral agreements between Sudan and the creditors concerned. The staff envisaged the possibility that further discussions with creditors with which there were no bilateral agreements would continue following the normal procedure.

The Deputy Managing Director, responding to Mr. Salehkhou's statement, recalled that he had chaired a meeting on September 27, 1983 when representatives of Sudan and the Islamic Republic of Iran had discussed the question of the outstanding debt between them. It had been agreed that the Minister of Finance of Sudan would write a letter to the Islamic Republic of Iran, which had been received by the Iranian authorities in late December. At the conclusion of the meeting of September 27, he had expressed the hope that bilateral negotiations between the two parties would be completed before the next meeting of the Paris Club on Sudan, then scheduled for mid-December 1983. That had not been accomplished, and he was still prepared to facilitate contact between the two sides.

At the present meeting, Mr. Salehkhou had proposed that payment to the Islamic Republic of Iran should be made a performance criterion, the Deputy Managing Director commented. He understood the problems that were involved in attempting to facilitate negotiations and hasten agreement between two parties to a debt. On the other hand, it was difficult to make the reaching of an agreement and payment of the debt a performance criterion; and even in the present case the performance criterion covered only arrears that existed after the individual rescheduling agreement had been signed.

The Chairman remarked that in the case of Sudan the existence of the debt was not contested. In accordance with the rule of uniformity of treatment among creditors, was it not the practice to have the debt repayment included in the global framework of the Paris Club?

The staff representative from the Middle Eastern Department replied that the Paris Club agreement had stipulated that Sudan should reach agreement with non-Paris Club creditors. Under the Paris Club framework, however, the Government of Sudan could not reschedule its debt with non-Paris Club creditors on terms more favorable than those of Paris Club members. The performance criterion of the stand-by arrangement clearly stipulated that from the date of agreements with its creditors, the Government of Sudan could not incur any arrears on the rescheduled debt service obligations. If Sudan and the Islamic Republic of Iran reached an agreement but arrears occurred thereafter, Sudan would be considered in breach of the performance clause.

Mr. Erb reiterated that it was not clear why, if the authorities could put the money into an escrow account to cover agreements that had been reached on a bilateral basis, they could not make the actual payments under those agreements.

The staff representative from the Middle Eastern Department explained that there was a difference between an agreement on rescheduling and an agreement on the amount due; there was a dispute with some countries regarding the amounts. The Fund did not have access to the bilateral agreements, but the staff had been informed that the amounts claimed under the rescheduling agreements were in some cases different from those recognized by Sudan.

The Chairman said that the discussion led to the interesting question of what would happen if an agreement were not reached with some creditors.

Mr. Blandin commented that under usual Paris Club procedures, the agreements must be reached within a certain lapse of time, specified in the minutes.

The Deputy Managing Director remarked that two questions remained. What if a creditor member of the Paris Club did not succeed in reaching an agreement with the debtor by the deadline? When there was no dispute concerning the principal of the debt, what if a creditor that was not a member of the Paris Club and had not attended Paris Club meetings did not succeed in reaching an agreement by that date? What was the role of the Fund and the Paris Club in those situations?

Mr. Salehkhou stated that the instance of a creditor's not being able to participate in the Paris Club had applied to the Islamic Republic of Iran, since that country had not initially been listed among Sudan's creditors. The Islamic Republic of Iran had, therefore, not been aware of the ongoing Paris Club negotiations.

The Executive Directors agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/26 (2/17/84) and EBM/84/27 (2/22/84).

3. YUGOSLAVIA - EXCHANGE SYSTEM

The approval under Decision No. 7057-(82/23), adopted February 22, 1982, of Yugoslavia's restriction on the availability of foreign exchange for tourist travel is extended until October 31, 1984, or the completion of the 1984 Article IV consultation with Yugoslavia, whichever is earlier.

Decision No. 7635-(84/27), adopted
February 17, 1984

4. APPROVAL OF MINUTES

a. The minutes of Executive Board Meeting 83/118 are approved. (EBD/84/39, Sup. 1, 2/14/84)

Adopted February 17, 1984

b. The minutes of Executive Board Meetings 83/120 and 83/121 are approved. (EBD/84/42, 2/13/84)

Adopted February 17, 1984

c. The minutes of Executive Board Meeting 83/122 are approved. (EBD/84/45, 2/14/84)

Adopted February 21, 1984

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/34, Supplement 1 (2/16/84) and EBAP/84/35 (2/17/84), and by an Advisor to Executive Director as set forth in EBAP/84/35 (2/17/84) is approved.

APPROVED: August 9, 1984

LEO VAN HOUTVEN
Secretary