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Minutes of Executive Board Meeting 84/136

10:00 a.m., September 6, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
	G. Ercel, Temporary
	X. Blandin
	M. Teijeiro
	D. C. Templeman, Temporary
	M. Lundsager, Temporary
M. Finaish	
	T. Yamashita
	B. Goos
J. E. Ismael	
R. K. Joyce	L. Leonard
A. Kafka	
	N. Coumbis
	A. S. Jayawardena
Y. A. Nimatallah	
	A. A. Scholten, Temporary
	K. G. Morrell
G. Salehkhou	O. Kabbaj
	S. M. Hassan, Temporary
M. A. Senior	
	A. K. Juusela, Temporary
	T. A. Clark
Zhang Z.	

L. Van Houtven, Secretary
L. Collier, Assistant

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Also Present

Administration Department: H. J. O. Struckmeyer, Deputy Director; R. M. Broadway, G. E. Gondwe, J. G. Keyes, M. Rosseel. African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; Y. Fassassi, C. A. François, A. Jbili, E. Sacerdoti, M. Sidibé, A. Tahari. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; S. Kanesa-Thasan, J. A. Clement. External Relations Department: A. M. Abushadi. Fiscal Affairs Department: A. Tazi, V. C. Thai. IMF Institute: K. Haddaoui, L. Nouha, Participants. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman, S. A. Silard. Middle Eastern Department: Z. Iqbal, A. Ouanes. Secretary's Department: A. Wright, Deputy Secretary; A. P. Bhagwat, B. R. Hughes. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; D. Berthet, D. Gupta, T. B. C. Leddy, G. Wittich. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; M. Caiola, C. Cha, M. T. Hernandez. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, H. A. Arias, S. E. Conrado, S. El-Khouri, H.-S. Lee, G. E. L. Nguyen, A. Steinberg. Assistants to Executive Directors: H. Alaoui-Abdallaoui, J. R. N. Almeida, J. Bulloch, M. Camara, M. B. Chatah, D. Hammann, E. Landis, G. W. K. Pickering, E. Portas, M. Rasyid, J. Reddy, D. J. Robinson, C. A. Salinas, S. Sornyanyontr.

1. MOROCCO - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the second review under the stand-by arrangement for Morocco (EBS/84/129, 6/6/84; Cor. 1, 6/19/84; and Sup. 1, Rev. 1, 9/5/84).

The staff representative from the African Department informed Executive Directors that the Moroccan authorities had advised the Fund that the cumulative figures at the end of June 1984, in Table 1 of the supplement, for nonconcessional foreign borrowing would be revised downward because they included some concessional loans that were being identified.

Mr. Kabbaj made the following statement:

During the Board's last meeting on Morocco (EBM/84/58, 4/9/84), the Chairman noted in his summing up that "Directors expressed satisfaction that the financial situation had improved noticeably in the second half of 1983 and that the authorities had implemented the measures contained in the current stabilization program." They also welcomed the authorities' decision to implement in 1984 the policies intended under the original request for the stand-by arrangement, despite the continuation of strong adverse external as well as internal factors such as the drought, the high level of interest rates and of the dollar, the sluggish economic conditions still affecting some of Morocco's partners, and the rising protectionism in major world markets.

The pace of adjustment was to be accelerated. Compared with 1982, the budgetary deficit was to be reduced by 5 percentage points, while the external current account deficit was to be reduced by 6 percentage points. Bold measures were implemented to that end. A general wage freeze combined with strict limits on recruitment were put in place. Certain administered prices were increased, and new taxes were raised. The dirham was depreciated further by 7 percentage points from the end-December 1983 level, and significant changes were introduced in the trade sector to promote liberalization and exports.

It is heartening to note from the staff report that the results of the implementation of the program are so far satisfactory. All the performance criteria at end-April 1984 have been met. The overall budgetary deficit was well within the program's limit, inflation was under control, and the objectives of the balance of payments remained broadly valid--the higher than projected imports being offset by better than projected phosphate exports. The same conclusions can be drawn from the outcome at end-June. As noted in EBS/84/129, Supplement 1, all the performance criteria were observed, and the program remains broadly on track. Furthermore, the authorities assured the Fund on the occasion of a recent staff visit that they were confident that the program's targets at end-September would be fully observed and that they remained vigilant in order to fulfill all their obligations under the program for the remainder of 1984.

On the structural measures, I am happy to report that the technical work on the tax reform has now been completed with the efficient assistance of the Fiscal Affairs Department of the Fund. The three draft laws relating to corporate income tax, general income tax, and value added tax are now being submitted to the Government before being introduced to Parliament in the session due to start in October 1984.

While implementing the Fund's program, the Moroccan authorities have pursued their dialogue with the World Bank in full cooperation with the Fund. Apart from pursuing its normal lending activity in Morocco, the World Bank has been heavily involved this year with the Moroccan adjustment program.

First, as Executive Directors will have noted, outstanding budgetary authorizations for capital expenditures from previous years' appropriations were large. The Moroccan authorities asked the World Bank for technical assistance in reviewing the situation so as to reduce the gap between the authorizations outstanding and the commitments that could be undertaken in a given year's expenditure program. A mission was subsequently sent to Morocco and agreement was reached recently on ways and means of tackling the problem that would pave the way in the near future for accelerating drawings under existing loan agreements in the framework of the Special Action Program. The Moroccan authorities express the hope that the Fund, in considering future programs for Morocco, will take into consideration the constraint with which they will be faced during the next two to three years in trying to reduce the overhang of capital expenditure allocations.

Second, in 1984 the World Bank for the first time granted Morocco an industry and trade policy adjustment loan of $150 million. The measures taken in the framework of this loan are far-reaching and include a wide liberalization of imports, the phasing out of the import deposit scheme, and export promotion measures.

Third, the World Bank is actively preparing with the authorities the forthcoming meeting of the Consultative Group on Morocco, which will be convened, in principle, at the beginning of January 1985.

Preparatory work is also being conducted for the continuation of structural reforms and, as I indicated in my statement of April 9, 1984, a second structural adjustment loan is being discussed with the World Bank with special emphasis on continuing the actions undertaken under the first loan. Other components, possibly relating to the agricultural sector and to financial intermediation, will be added after discussion with the authorities.

As Executive Directors know, the rescheduling exercise with official creditors was quickly completed. However, although all financial terms were agreed upon with the international banks, including short-term debt rollover, some legal problems arose as to the possible involvement of the central bank of Morocco. A solution is emerging, after long discussions and with the help of the Fund--assistance which was sought by both parties--and after the Moroccan authorities made a proposal which seems to constitute a good basis for compromise. A meeting between the Steering Committee of the banks and the Moroccan authorities is being organized and it is the firm intention of the authorities to try to reach a final agreement on this question. It is to be noted that both the banks and the authorities have been implementing the agreement de facto and that no difference whatsoever has arisen on the financial aspects of their dealings.

Finally, my authorities instructed me to thank wholeheartedly the Fund's management and staff for their active role in the implementation of the adjustment program and for their valuable assistance. They also wish to thank the Executive Directors for the interest they have always shown in Morocco.

Mr. Nimatallah said that he agreed with the staff's analysis and conclusions and supported the proposed decision. The authorities thus far had been successful in implementing the program under the stand-by arrangement. All of the corrective measures envisaged under the program had been adopted, and, as a result, the quantitative performance criteria had been observed, with some program targets being exceeded. Progress had also been made in the implementation of tax reforms and in the orderly reduction of the stock of outstanding budgetary allocations for capital expenditures.

With respect to the rescheduling of debt, the differences between the authorities and the commercial banks regarding a guarantee to be offered by the central bank had been narrowed significantly, Mr. Nimatallah noted. The two parties had been negotiating in good faith; they also had respected previously agreed financial terms. He therefore supported the staff's recommendation not to delay further the next purchase by Morocco despite the involuntary accumulation of arrears resulting from the absence of a formal rescheduling agreement with the banks. That sensible approach would benefit all concerned: the Fund should not be perceived as exerting pressure on the authorities by delaying the purchase, and Morocco should be encouraged by the Fund's helpful and understanding attitude to persist with its adjustment efforts.

He could support the authorities' proposal to increase capital expenditures in the 1984 budget by DH 540 million over the initial program targets for several reasons, Mr. Nimatallah said. First, part of the resulting increase in the deficit was being financed by external resources not initially expected in the program. Second, the proposed new limits on domestic bank financing of the deficit would be reduced to the extent that additional external financing became available. Third, the proposed increase in investment expenditures was needed to meet urgent demands for payments and to enable the private sector to improve its financial management. And fourth, the inflation rate was low and well below the program target. In sum, he was encouraged by the authorities' progress in implementing both short-term and medium-term adjustment policies.

Mr. Finaish stated that he was in broad agreement with the staff's appraisal and could support the proposed decision. The combination of measures taken in 1983 and the better than expected performance in the budgetary and credit areas in the past four months had produced both an inflation rate well below the target and some improvement in the external position, with the overall balance of payments after debt rescheduling expected to be in surplus for the year as a whole. Moreover, important trade liberalization measures had been taken in cooperation with the World Bank. Those developments were welcome, especially in light of the difficulty of the Moroccan situation, and they reflected the authorities' determination to implement and to follow through on adjustment policies, thereby enhancing prospects for the external financing that would be needed in coming years. In addition, it was encouraging to note that the more flexible approach adopted by the Fund in the case of Morocco with regard to specific microeconomic measures had proved to be correct.

The restraint in public expenditure during the first four months of 1984 was particularly welcome, Mr. Finaish said. Clearly, the budgetary deficit and its financing would play a crucial role in Morocco's adjustment effort. If the fiscal policy stance of January-April continued for the rest of 1984, the deficit, according to staff calculations, would be significantly lower than in 1983 both in absolute terms and as a percentage of GDP. Given the expectations with regard to external financing, domestic bank borrowing by the Government should be much lower than in 1983, resulting in a further moderation in the rate of inflation and allowing a larger portion of domestic credit to be utilized by the private sector--60 percent in 1984 compared with 25 percent in 1983. The latter development should contribute to the realization of the growth target for 1984 of 3 percent, as the data seemed to indicate that the rate of growth in recent years had been affected by the distribution of credit between the private and public sectors.

He shared the staff view regarding the overhang of capital expenditure allocations, which had the potential of jeopardizing the adjustment effort and should be dealt with urgently, Mr. Finaish continued. It was therefore encouraging to note that the authorities intended to follow the recommendations of the World Bank study and to establish a systematic plan for the orderly liquidation of such allocations beginning with the 1985 budget. Nevertheless, given the unforeseen external assistance already received and the authorities' expectation of further external assistance during 1984, he could support the Government's proposal to increase cash payments for investment, as mentioned in the staff report. As to the tax reform, which constituted an important element of fiscal policy in 1984, he was encouraged that the legislative process for its enactment was on schedule, and he hoped that it would be implemented before the end of 1984.

With regard to pricing policies, the mechanism instituted for pricing petroleum products to ensure the financial equilibrium of the petroleum sector was working well, Mr. Finaish noted. Agricultural producer prices should be set in a manner that took into account the costs of production and relative terms of trade vis-à-vis other sectors in the economy, and he noted the authorities' intention to take those factors into consideration in adjusting producer prices before the next crop season.

The marked improvement in the Moroccan economy over the past few months further strengthened confidence in the authorities' determination to continue on a steady path toward the attainment of financial stability, Mr. Finaish concluded. As the staff had noted, however, the correction of the underlying imbalances could be achieved only over a number of years. It was thus particularly important to ensure the availability of adequate financing so as to achieve the growth objective of the program, solidify the adjustment achieved so far, and facilitate the implementation of additional adjustment measures beyond the program period. It was therefore encouraging that the difficulties in finalizing the agreement with the commercial banks were expected to be resolved soon.

Mr. Blandin recalled that during the previous review under Morocco's stand-by arrangement (EBM/84/58, 4/9/84), he had mentioned that because of the favorable trends registered in the second half of 1983 and the firm commitment of the Moroccan authorities, he was more optimistic than concerned. The present staff report fully justified his earlier view. He agreed with the staff analysis and supported the proposed decision. The Moroccan authorities were to be commended for having introduced a courageous program despite political and social constraints, and he encouraged them to pursue the program's objectives in close collaboration with the Fund.

All of the end-June performance criteria had been met, Mr. Blandin noted. Considerable progress had been achieved in both the domestic and external sectors: the inflation rate had decreased sharply to 7 percent on an annual basis, well below the programmed rate, and the balance of payments position had improved. However, he agreed with the staff that the improvement was still fragile, and until it was consolidated, the economy could not be considered safely back on track.

The performance criteria for the second half of 1984 were appropriate, Mr. Blandin commented. In the key area of fiscal policy, he supported the authorities' decisive actions to bring about a further reduction in the overall budgetary deficit and especially their determination to deal with certain aspects having an obvious impact on public finances: first, the planned elimination of the overhang of capital expenditure allocations, with the assistance of the World Bank; second, the adjustment of agricultural producer prices; third, the pricing system introduced in the petroleum sector; and fourth, tax reform.

Phosphate--the country's main export item--appeared to be the most important factor affecting Morocco's balance of payments position, Mr. Blandin noted, and he asked the staff whether the present improvement in phosphate exports would last. A prudent assessment of balance of payments prospects for 1985 should include the possibility of a somewhat slower increase in demand for phosphates than expected. He welcomed the favorable outlook for private transfers, which clearly indicated improved confidence. On the import side, the situation was largely under control.

The flexible exchange rate policy of the authorities had undoubtedly contributed to the improvement in the competitiveness of Moroccan products and should be maintained, Mr. Blandin commented.

He was pleased that the differences of view between the authorities and the commercial banks were beeing resolved, Mr. Blandin said. It would not be advisable to delay further Morocco's next purchase as the adjustment program was well designed and encouraging progress had been achieved.

Mr. Goos commented that Morocco had made significant progress in reducing its external and internal imbalances as well as the inflation rate. He noted with particular satisfaction that all performance criteria under the stand-by arrangement had been met, and he welcomed the intention of the Moroccan authorities to continue the stabilization effort agreed upon with the Fund. Although recent developments gave rise to optimism with regard to Morocco eventually overcoming its economic problems, the existing disequilibria remained large. His authorities, like the staff, believed that Morocco should pursue its present stance of policies even beyond the time frame of the present stand-by arrangement. Considerable additional efforts would be required if more fundamental structural maladjustments, such as high unemployment and migration to urban areas, were to be tackled. In particular, the authorities should avoid reducing any room for maneuver created by new foreign borrowing on nonconcessional terms as a result of the present debt rescheduling negotiations. Instead, they should consolidate the adjustment gains achieved thus far.

On the basis of recent economic performance and the proposed economic policies, Mr. Goos continued, he could support the proposed decision, although the failure to reach final agreement on the debt rescheduling presented him with some difficulties. The proposed decision--to permit purchases under the stand-by arrangement to be made before the rescheduling agreement was secured--was not in conformity with the Fund's established policies, according to which the Fund played a catalytic role in respect of external financing. However, in light of assurances by the staff and Mr. Kabbaj that the negotiations would be concluded soon, he could support the amended decision, but only as an exception that would not set a precedent that would weaken the Fund's established policies.

Progress in the field of tax reform and the intention to tackle the large capital expenditure overhang were commendable, Mr. Goos said. As a result, the budgetary performance should be greatly improved, and he looked forward to the next review when he hoped to discern further progress in that important policy area.

Mr. Clark commended the authorities for continuing to meet the quantitative performance criteria and for taking measures to allow a substantial further liberalization of the trade and exchange system. Developments in the real economy either had been in line with or better than projections in the program, with notable improvements in government revenue, savings, and exports. Nevertheless, while the program remained on track, he, like the staff, was concerned that the economic situation remained fragile in both the short term and the medium term, the external financing gap projected over the next three years being particularly worrisome because it represented 50 percent of exports over that period. The adjustment effort must be maintained, and insofar as it was financed through loans or rescheduling, it would be important to ensure that the debt service hump in 1985-89 was not recreated in the 1990s.

The projected increase of 0.5 percent of GDP in the budgetary deficit was also worrying, Mr. Clark continued, especially as three fourths would be financed through bank borrowing. The staff had stated that the increase was required "to meet urgent demands for payments"; he presumed that the expenditures had already been incurred, and that the alternative would have been an increase in the fonds réservés (unpaid bills). He invited the staff to comment on that development and also on how far it had been possible to substitute additional external finance for the DH 400 million to be financed by further recourse to the domestic banking system. He welcomed the progress being made to deal with the important problem of the overhang of capital expenditure commitments and the agreement reached with the World Bank on the methods for tackling that problem. It would be helpful if the report prepared for the next review could include an annex discussing expenditure control mechanisms in Morocco and the fonds réservés system in particular.

The introduction of a new petroleum pricing system was commendable, Mr. Clark remarked. With regard to consumer prices, although he was aware of the political problems involved, he recommended the phased abolition of subsidies. He agreed with the staff, however, that such a policy should not be allowed to affect producer prices, and he was pleased that the authorities intended to provide adequate incentives to producers.

On the negotiations for rescheduling external debt payments due in 1983 and 1984, Mr. Clark said that it was encouraging that the Moroccan authorities and the commercial banks appeared to be close to agreement which had been implemented de facto. Nevertheless, it was not clear that the present review provided the "needed assurances that the program is fully financed," as called for at the time of the Executive Board's previous review (EBM/84/58, 4/9/84). He invited the staff to comment on the position reached and on the reaction of the Moroccan authorities to the counterproposal submitted to them by the banks.

Mr. Orleans-Lindsay stated that he endorsed the staff's evaluation of developments in the Moroccan economy. The country's performance under the stand-by arrangement was encouraging; the results reflected the authorities' determination to implement strong adjustment measures, and the progress that had been made in various areas was commendable--reducing the domestic and external imbalances, lowering inflation, and narrowing the resource gap. All the performance criteria for end-April and end-June 1984 had been met. The budgetary deficit had been kept within the program limit through a combination of expenditure restraint and revenue-increasing measures. In the external sector, exports had increased faster than expected while imports had been kept lower than originally estimated under the program. He shared the view of the staff and the authorities that the thrust of the program should remain unchanged for the rest of 1984.

In the fiscal area, Mr. Orleans-Lindsay welcomed the further reduction by DH 540 million in the stock of unpaid bills. In view of the magnitude of budgetary capital expenditure authorizations from past years vis-à-vis actual capital outlays, however, he hoped that the authorities would move promptly to complete the inventory of outstanding commitments and to establish a systematic plan for their settlement in line with available financial resources. He looked forward to the next staff review to learn of the progress made in that area. Meanwhile, he could support the authorities' proposal for a small increase in cash payments for investment expenditures in 1984, which would raise the target for the overall budgetary deficit by about 0.5 percent of GDP. He welcomed the significant progress made toward the long-awaited fiscal reform and the decisive steps to obtain the necessary legislative approval for the value-added tax, the corporate income tax, and the general income tax so that they could be incorporated into the 1985 budget.

With regard to pricing policies, the authorities had been able to establish a system that eliminated subsidies to both producers and consumers in the petroleum sector, Mr. Orleans-Lindsay said. The quarterly review procedure instituted under the system and the results of the first review in April 1984 were clear indications that the new pricing mechanism would ensure the global financial viability of Morocco's petroleum operations. As for agricultural pricing policies, he welcomed the authorities' intention to make another appropriate upward adjustment in producer prices before the next crop year, in line with their policy of providing adequate incentives for producers of cereals, cotton, sugar cane, and sugar beet.

He had no difficulty with the understandings reached on the quantitative performance criteria for end-September 1984, Mr. Orleans-Lindsay stated. Developments in the Moroccan economy thus far had been satisfactory, and the authorities' determination to maintain the adjustment effort for the remainder of 1984 should ensure the achievement of the objectives of the program. He supported the proposed decision as revised.

Mr. Ismael commented that it was reassuring to learn that the program in place under the present stand-by arrangement for Morocco continued to be on track. All performance criteria for end-April 1984 had been met, and the measures envisaged under the program had been implemented. The accompanying improvements in the general economic conditions and the authorities' determination to pursue their adjustment effort throughout 1984 provided reassurance that the program objectives would be achieved. He agreed with the staff's views on the need to consolidate the progress made thus far.

On the external side, Mr. Ismael continued, he was encouraged that the improvement in the current account of the balance of payments was expected to be better than projected, primarily as a result of the sharp increase in exports of phosphoric acid, while imports were expected to be generally consistent with the program estimate. The bulk of the improvement appeared to have been brought about by more favorable prices in international markets for Morocco's exports. However, the more flexible exchange rate policy adopted since the inception of the program, as well as the further liberalization of the trade and exchange system, had made a significant contribution to the remarkable performance. If they were to capitalize further on the improvement in world markets, it would be essential for the authorities to continue their flexible exchange rate policy and to accelerate the progress toward a market-oriented trade and exchange system as well as an appropriate monetary and fiscal policy stance.

The overall budgetary deficit during the first four months of 1984 had been kept within the program limit, Mr. Ismael noted, and a study was under way on the establishment of a systematic plan to reduce the overhang of capital expenditure authorizations that had accumulated over the past few years. Considering the large amounts involved, it was essential that the problem be solved in a manner that would not jeopardize effective financial management under the program. In order to meet the urgent demand for payments resulting from the authorization overhang, the Government was proposing to increase cash payments for investment, and thus the budgetary deficit under the 1984 program, by about 0.5 percent of GDP. Consequently, a higher rate of monetary and bank credit expansion than originally envisaged would be required for 1984 insofar as the increased deficit would be financed by additional recourse to the domestic banking system. That deviation from the original program was not a cause for immediate concern, and he had no difficulty in agreeing to the proposal. Nevertheless, given the large imbalances in the economy and the still difficult medium-term outlook, there was a real need to ensure that the problem would not interrupt the progress of adjustment. He invited the staff to comment on the assumptions in the medium-term scenario relating to the capital expenditure overhang. He welcomed the information that draft legislation in respect of corporate income, general income, and value-added taxes would be presented to Parliament in October 1984; the fiscal reform should help to further strengthen government finances and to increase confidence in the success of the adjustment process.

The flexible system inaugurated by the Government for determining petroleum prices so as to ensure the global financial equilibrium of the petroleum sector was appropriate, Mr. Ismael commented. He supported the staff's argument against leaving consumer prices frozen for an extended period. The growing budgetary subsidies resulting from such a freeze could impede progress toward financial viability and prevent the Government from adopting an adequate agricultural producer price policy that was essential for removing supply bottlenecks. He hoped that the authorities' praiseworthy intention to adjust those producer prices before the next crop year would be accompanied by an adjustment in consumer prices, at least in the nonfood sector.

He was pleased that an agreement had been reached with the World Bank on a $150 million structural adjustment loan for Morocco, but the delay in reaching final agreement on the rescheduling of debts to commercial banks had given rise to payments arrears, which was unfortunate, Mr. Ismael stated, especially as the negotiations had been protracted because of largely procedural matters. However, with the good faith and serious efforts that had been shown by both sides, as indicated by the staff, he was confident that the remaining differences would soon be resolved. He had no objections to appropriate purchases under the stand-by arrangement, notwithstanding the existence of payments arrears, and he supported the proposed decision.

Ms. Lundsager commented that Morocco's adjustment effort continued at a good pace, with a better than expected performance in some areas. However, like others, she remained concerned about the lack of a final resolution of the dispute with the commercial banks regarding the guarantor of the rescheduled credits, especially as several Directors had stressed at the previous review that the current review should provide assurances that the program was fully financed. The staff and Mr. Kabbaj had indicated that agreement was at hand; but, because agreement with the international banks was necessary for the success of the Fund-supported adjustment program, she would appreciate more specific information on the status of those discussions and on the compromise regarding legal issues referred to by Mr. Kabbaj.

Her chair had previously expressed doubts about the strength of Morocco's adjustment effort, but she now felt that it was progressing well, as shown by developments in 1983 and the first four months of 1984, Ms. Lundsager remarked. Although growth had been low in 1983, inflation had fallen and the balance of payments had improved. As a result, most of the targets envisaged for 1984 appeared likely to be met.

While she supported the program for 1984, she was disappointed that the budget deficit would increase by an amount equal to 0.5 percent of GDP, Ms. Lundsager said. However, she was aware that the World Bank recommendation that actual capital expenditures not be further reduced had been the basis for the staff recommendation to increase the deficit target. In the light of joint Bank-Fund efforts to improve the fiscal situation in Morocco and the Fund staff's view that the increase in the budget deficit would not affect the external sector, she could reluctantly accept the recommendation, but she urged the Moroccan authorities to follow the World Bank's advice to reduce government participation in the financing of some public enterprise investment.

The fiscal situation remained the most serious of Morocco's problems, Ms. Lundsager continued. Although no new investment projects would begin without World Bank endorsement and funding secured from donors, current expenditures remained a problem that would be difficult to solve, given the public reactions to price increases earlier in the year. However, she strongly supported the staff view that consumer prices of those agricultural products that remained frozen would have to be raised, especially given the need to raise producer prices to levels allowing farmers to operate at adequately profitable margins, thus not only encouraging production and consumption but also reducing the burden on the state budget and the need for imports. On a more positive note, the quarterly adjustment of petroleum prices was a step in the right direction. She hoped that the projected small surplus on global petroleum operations indicated that subsidies had been almost eliminated. The information that tax reforms had been drafted and would be submitted to the legislature in the fall of 1984 was welcome.

The authorities' maintenance of a flexible exchange rate was laudable, Ms. Lundsager commented. The resulting price signals would encourage additional exports while restraining imports. She was also encouraged by the further liberalization of the trade and exchange system, especially given the serious balance of payments difficulties facing Morocco.

The maintenance of the ceilings on external debt remained appropriate in the present case, Ms. Lundsager remarked. The high debt service ratio, even after debt rescheduling, emphasized the need for Morocco to continue the present course of adjustment. Progress had been good thus far, but the gains achieved could easily be lost, especially if strict adherence to expenditure controls was not maintained. Because of indications that the debt rescheduling agreement with the banks was imminent, she could support the proposed decision.

Mr. Hassan stated that he agreed with the staff appraisal and supported the proposed decision. In the first half of 1984, the budgetary deficit had remained within the program limit, the inflation rate had been substantially reduced, and export growth had been higher than envisaged, improving upon the progress made during the second half of 1983. He thus commended the authorities for the full implementation of the measures envisaged under the program and for their compliance with all the performance criteria.

The reduction of the budget deficit by about 4 percent in the first four months of 1984 had been made possible by expenditure cuts and higher revenues, and government recourse to the banking sector had been within the program ceiling, Mr. Hassan said. While noting the measures in place to reduce expenditure growth, he agreed with the staff that the implementation of the proposed tax reform was an important prerequisite for the further reduction of fiscal imbalances. He welcomed the steps that had been taken by the authorities to introduce the reform in time for the 1985 budget. The authorities also had also been successful in keeping credit expansion within the prescribed ceilings and in reducing the rate of monetary growth, both of which had contributed to a slowdown in the rate of inflation to well below the program target. He also noted that interest rates continued to be positive.

The problem of the stock of budgetary authorizations for capital expenditures outstanding from previous years posed difficulties for effective financial management, Mr. Hassan remarked. The study prepared with the World Bank's assistance and the authorities' plan for the orderly liquidation of those outstanding authorizations were steps in the right direction. He supported the proposed increase in the programmed cash payments for investment.

As a result of the flexible exchange rate policy and the higher than envisaged increase in exports in the first four months of 1984, the current account of the balance of payments was expected to be within the program target, Mr. Hassan continued. He hoped that the remaining issues blocking a final agreement between Morocco and the commercial banks would be resolved soon. Meanwhile, further delaying Morocco's next purchase under the arrangement would make it difficult for the authorities to meet the program targets; therefore, he supported the recommended amendment to the proposed decision to enable Morocco to make further purchases.

He welcomed the authorities' intention to continue a flexible pricing policy, Mr. Hassan said. The upward adjustment in producer prices should help to ensure adequate incentives for producers. The newly introduced system that would avoid subsidization of petroleum products was a step in the right direction. While encouraging the authorities to gradually reduce consumer subsidies, he understood their concerns about the social and political implications of a rapid price liberalization. In conclusion, the adjustment effort had to be sustained to consolidate the gains made thus far, and he had confidence in the Moroccan authorities' strong commitment to continue that effort.

Mr. Zhang remarked that the overall economic situation in Morocco had continued to improve since the previous review as a result of further reductions in the inflation rate, the overall budget deficit, and the current account deficit. All the performance criteria had been observed, and the adjustment program was on track. The staff and the authorities were at present agreed in their appraisal of Morocco's economic performance.

He was pleased that measures had been taken on the four topics covered by the present review, Mr. Zhang noted. Despite the difficulties of introducing a tax reform under prevailing conditions, the Moroccan authorities had been able to initiate a number of important tax measures. That and other actions in the areas under review testified to the determination of the Moroccan authorities, in cooperation with the Fund and the World Bank, to restructure their economy.

He could appreciate the authorities' position on the adjustment of some prices of agricultural products, Mr. Zhang commented. It was entirely reasonable that the authorities should want to determine the size of adjustment on the basis of various relevant factors. He noted with sympathy the authorities' hope that in future arrangements with Morocco, the Fund staff would take into account all the constraints involved in solving the problem of the overhang of capital expenditure allocations. In conclusion, he supported the proposed decision as amended that would enable Morocco to make the next purchase under the stand-by arrangement before final agreement was reached on debt rescheduling between Morocco and its commercial creditors.

Mr. Jayawardena said that he joined other Directors in describing the Moroccan stand-by arrangement as a conspicuous success thus far. When Morocco had started the program, the problems the authorities had faced were large; the courageous manner in which they had moved, given the acute sociopolitical constraints, deserved the Board's commendation.

The structural reforms relating to taxation and budgetary expenditures were particularly welcome, Mr. Jayawardena commented. The authorities' prompt action in that field, in close collaboration with the Fund and the World Bank, inspired confidence that they would move decisively to correct other structural deficiencies, particularly in improving the relative terms of trade between the agricultural and other sectors of the economy.

Agreement with the commercial banks had been reached on all the financial terms of rescheduling, Mr. Jayawardena noted; in his view, only relatively minor technical and legal issues remained pertaining to the participation of the central bank. He did not believe that those issues should be allowed to prevent Morocco's fulfillment of the performance criteria for September and thereby jeopardize a very good program. In sum, he fully endorsed the staff appraisal and supported the proposed decision as amended.

Mr. Joyce recalled that when the Executive Board had previously discussed Morocco (EBM/84/58, 4/9/84), he had been critical of developments under the program. He had been concerned that with little time remaining the pace of adjustment was not sufficiently rapid and that the search by the Moroccan authorities for more permanent and sustainable solutions had to continue. His present opinion was more optimistic. The program was on track and all performance criteria for end-April had been met. Nevertheless, the situation remained fragile, and he fully supported the staff view that Morocco would have to sustain the application of adjustment measures over an extended period in order to solve its problems. There were still large government budgetary and current account imbalances, which would require a continued effort to redress; and in the immediate future, increases in agricultural prices and the limiting of consumer food subsidies, the satisfactory handling of capital expenditure authorizations from the previous year, and the implementation of new tax measures would be critical.

The overall budget deficit for the first four months of 1984 was within the program limit, Mr. Joyce commented. He welcomed the increase in current revenue of 16 percent, compared with the same period in 1984, as well as the slight decline in budgetary expenditure and the reduction in the stock of unpaid bills. The Government's intention to submit legislation introducing corporate income, general income, and value-added taxes to Parliament in the next session was praiseworthy. The implementation of the tax reform was a crucial feature of fiscal policy. The authorities would have to monitor revenues during the entire program period to ensure that the increases registered in the first half of 1984 were sustained throughout the year.

The authorities had been attempting to solve the problem of the overhang of capital authorizations in conjunction with the World Bank, and they were in the process of establishing a systematic plan, which would be incorporated in the 1984 budget law, to cancel all such undrawn capital commitments, Mr. Joyce said. Progress made in that area would be an extremely important element of the Board's next review of the program. Meanwhile, the intention of the Government to increase investment cash disbursements by 0.5 percent of GDP to cope with the more immediate problems of financial management was acceptable. The fact that additional deficits would be covered by unanticipated external grants and additional recourse to the domestic banking system was worrisome but tolerable if the problem could actually be solved adequately in the near future.

He welcomed the new petroleum pricing system, including the quarterly reviews, which should also be reviewed by the Board, Mr. Joyce commented. On agricultural prices, although they had been raised in 1983 and were scheduled to be increased in September 1984, he agreed with the Fund staff that further increases of about 15 percent were essential, particularly in view of food production shortfalls and the rise in imports. Recalling the January food riots, he was aware of the difficulties faced by the authorities, who nevertheless had little option but to withstand pressures to absorb increases in producer prices through further subsidization; subsidies must be decreased.

As for monetary policy, credit ceilings had been met; the growth of the money supply had decelerated; and interest rates appeared to be adequate, Mr. Joyce remarked. He could support the monetary and debt ceilings proposed for the second half of 1984. With regard to external policy, real effective exchange rates were at their lowest level since 1972, and the recent 2 percent depreciation that had occurred in April 1984 indicated a continued satisfactory flexibility in the stance of exchange rate policy. He also welcomed the liberalization of the trade and exchange system as programmed.

Official debt rescheduling had been completed quickly, Mr. Joyce noted, and, although final agreement had not yet been reached with the commercial banks, the difficulties appeared to be legal and technical in nature. Both the banks and the authorities had been implementing the agreement de facto to date; therefore, in the light of the evidence and Mr. Kabbaj's assurances, he could support the proposed decision enabling Morocco to make purchases under the stand-by arrangement.

The staff representative from the African Department explained that the Moroccan authorities and the commercial banks were currently working together on a letter describing the role of the central bank in making foreign exchange available. Following a proposal by the Moroccan authorities in mid-August, the Steering Committee had recently met twice in London; it had proposed a formulation for the one-page sight letter that had been submitted on the previous day. The staff was not yet aware of the Moroccan authorities' response.

The solution to the problem of the overhang of capital expenditure allocations would center on action in three areas, the staff representative continued: first, improve the budgetary process--and some steps were being taken; second, increase financial resources including government savings; third, and most urgent, make an inventory of previously authorized projects--that inventory was also under way. To reduce the substantial stock of budgetary authorizations amounting to DH 22 billion, the authorities were considering the cancellation of a number of projects authorized but not yet undertaken; for example, a freeze of new projects over the next few years, and, in consultation with the World Bank, a modification in the proportion of foreign financing of the projects already approved. On the basis of positive steps taken by Morocco in recent weeks, the World Bank was currently considering a Special Action Program under which the Bank would accelerate its disbursements and increase its share in the total financing of a project from 60 percent to 80 percent. The problem of the capital overhang would be reviewed and discussed with the authorities during the November mission. The increase in capital expenditures envisaged for 1984 was a modest step toward reducing the overhang; part of the financing would be covered by additional external grants, previously received but not included in the initial program estimates, as well as by additional recourse to the domestic banking system. There was a possibility that part of the financing would be offset by further external assistance, which would result in a downward revision in the credit ceilings.

Although there had not been a revision of the medium-term scenario, some improvement in the balance of payments, mainly in the export sector, was expected, the staff representative said. Exports of manufactured goods during the first six months of 1984 had been more favorable than expected. The improved competitiveness of Morocco's exports probably resulted from the depreciation of the exchange rate and the implementation of a number of reforms, such as the elimination of both export licensing and the government monopoly over exports of processed food products. Exports of phosphoric acid were expected to increase by about 19 percent in volume terms in 1984 and could make Morocco one of the most important exporters of that product. In the medium term, the balance of payments would continue to be crucially dependent on phosphate rock; staff assumptions of an increase in export volume of 3 percent over the next three or four years, with perhaps only a small increase in unit price, were highly conservative. But the staff was relatively more optimistic about both the economic effects of the flexible exchange rate and the substantial reform of export incentives that was being conducted in collaboration with the World Bank. The impact on workers' remittances from abroad, of both the flexible exchange rate and the introduction of an 8 percent interest rate on new deposits, had been very favorable; deposits had increased more than expected during the first six months of 1984. The tourism sector had also responded positively to the flexible exchange rate.

The staff representative from the Exchange and Trade Relations Department, referring to comments by Directors on the incomplete agreement with commercial banks, said that it might be useful to briefly recapitulate the reasons why management and staff had recommended that the Board consider the completion of the review at the present stage. Agreement had been reached between the Moroccan authorities and the commercial banks on all financial terms except one, and as Mr. Kabbaj had stated, the two parties were already de facto implementing those terms. It was important to keep in mind that on that basis the financing gap would be met.

In addition, the staff representative continued, both Morocco and the commercial banks had been making good faith efforts to resolve the outstanding issue. The Board's consideration of the staff report had already been postponed once, from July 9, to allow more time for the two parties to reach agreement. Morocco was performing well in the present situation and any further delay in purchases would jeopardize the achievement of the program targets. Management and staff did not favor a further delay, and it had been thought wise not to leave the decision open-ended but to include a time limit; therefore, the decision would enable Morocco to make further purchases only up to November 30, 1984, the period to be covered by the next Board review of the program.

The Board had acted similarly in the case of Liberia, the staff representative from the Exchange and Trade Relations Department recalled, where there had been undue delays in the conclusion of an agreement between commercial banks and Liberia because of differences between the commercial banks. On that occasion, the Board had decided that Liberia's purchases under the stand-by arrangement should not be interrupted, nothwithstanding the fact that the agreement had not been concluded at that date.

The Chairman added that the Fund was not thereby leaning toward a policy of continuing to support programs when member countries were engaged in good faith negotiations with their bankers but had not reached final agreement on financing the gap. Since 1982, the Fund had operated on the established principle that it should not support a program if a large proportion of the financing was uncertain. For that reason the concept of reaching the "critical mass" of the financing, based on prior arrangements with financiers, had been developed. The present case was exceptional.

Mr. Kabbaj said that his authorities were determined to continue with vigor their efforts to implement the program despite adverse exogenous factors, in particular, a drought for four consecutive years and the weak market for phosphates in the preceeding seven years. It was clear from the staff report and from Executive Directors' interventions that his authorities' determination had yielded results. Apart from the implementation of the tax reform, which was in its final stages, on the occasion of the next review the Board would be able to discuss other factors affecting the fiscal situation--pricing policies, subsidies, and development expenditure. The authorities deserved recognition and understanding of their courageous attempts on various occasions to deal with the problem of current expenditure; for instance, the general wage freeze and limit on recruitment had aggravated the unemployment situation, which was of concern to the authorities.

The proposed increase in the programmed cash payments for investment, representing 5 percent of total development expenditure, was small, Mr. Kabbaj continued. Development expenditure in general was low and had not been increased from the level budgeted in 1978, a fact that was a matter of concern because of its bearing on future growth. The World Bank was assisting in finding a solution to the problem of the overhang of capital expenditure allocations, which would be one of the subjects considered at the next Consultative Group meeting in January 1985. In addition to assistance from the World Bank and the Fund, Morocco would also need the help of the international community if it were to achieve a sustainable level of development expenditure consistent with satisfactory rates of growth.

With regard to external policies, bold steps had been taken in 1983 and 1984 to liberalize both exports and imports, and the exchange rate was considered to be at an adequate level, Mr. Kabbaj said. The authorities aimed to continue those external policies, but in order to do so, they would have to be able to count on the continued help of the international financial community as well as the removal of protection barriers in reciprocity for Morocco's measures of liberalization.

As for the debt rescheduling agreement with commercial banks, Mr. Kabbaj observed, the negotiations were at the final stage following protracted discussions. The banks and the Moroccan authorities had appealed to the Fund for assistance, and his authorities were grateful to the Chairman and to the staff for their response. His authorities had made a proposal to the banks--consistent with the legal opinions of the Attorney General of Morocco and the advice received from the Fund and other sources in the international community--but had not yet received the banks' counterproposal. He assured Executive Directors that a meeting with the Steering Committee would take place at the beginning of the following week or no later than the Annual Meetings of the Bank and the Fund.

The Chairman confirmed that Fund management had been invited by the Moroccan authorities and the bankers to assist in solving the legal problem pertaining to the debt rescheduling agreement. He understood that there had been a considerable rapprochement between the two parties in recent days and that the Moroccan authorities' proposal would respond to one of the fundamental issues raised by the banks. He hesitated to say that the problem was solved because it was necessary to know more about the counterproposal and the subsequent reaction of the Moroccan authorities; but the momentum had been regained and thus, for the reasons cited by the staff and as a very exceptional case, the revised proposed decision had been submitted for the approval of the Executive Board on the understanding that the agreement would be completed before November 30 at the latest. It also was understood that adoption of the proposed decision would not affect the principle that programs must be fully financed before the Fund would commit its own resources under a stand-by arrangement.

The staff representative from the Exchange and Trade Relations Department confirmed that the Fund should be satisfied that a program would be fully financed. In the present case, the terms that had been agreed between the commercial banks and Morocco with regard to interest and maturity were such that according to the staff's calculations, the program would be financed. In addition, the Moroccan authorities were already implementing the terms de facto. Therefore, in the judgment of the staff, the fundamental issue of financing did not arise; however, because the agreement had not been fully completed, the staff had felt it necessary to propose approval only until November 30, the conclusion of the period for the next review, when the Board could consider the question again.

Mr. Nimatallah said that he agreed with the Chairman's comments on the principle of ascertaining that complete financing for a program was assured and the present case was thus an exception. However, he wondered whether commercial banks had the right to ask for assurances from the central bank of a country that had a good record of paying and servicing its debts. Although they were familiar with Moroccan laws, the banks had insisted on certain legal actions and had thereby delayed the review and subsequent purchases. Should the Fund not have formulated an opinion on the banks' action in delaying the completion of the financing and thereby the pace of adjustment under a Fund program? He nevertheless welcomed management advice to both parties and considered that the Fund should continue to provide assistance to members when necessary. Because Morocco was current in its payments, the banks should be advised to avoid further postponement of the agreement, and the Executive Board should adopt the decision allowing Morocco to make further purchases under its stand-by arrangement with the Fund.

Mr. Clark said that although he supported the proposed decision, it might have been more appropriate after a delay of two months to have waited a few more days before considering the matter in order to have an indication of the response to the set of proposals put forward by the Moroccan authorities.

Mr. Kabbaj reported that the counterproposal had not been conveyed officially to the Moroccan authorities, who had, however, been made aware of it through other channels. He assured Directors that the Moroccan authorities were prepared to meet the Steering Committee on the basis of those proposals; they were anxious to finalize negotiations, especially as they would soon start discussions on the 1985 program and rescheduling.

The Deputy Managing Director said that the Fund had been aware of the extensive and frequent discussions that had taken place between the Moroccan authorities and the banks. The decision to bring the matter to the Board for discussion and decision was based on a perception of significant movement on both sides during the past two months and of exceptional progress toward an agreement. The timing of the banks' response had been related to their own problems in arranging a meeting to consider Morocco's proposal put forward two weeks previously.

The staff representative from the African Department added that there had been a practical problem of timing if Morocco wished to draw on September 15. If the Board discussion had been postponed, the drawing would have taken place in October and would have had a number of implications for the program. The postponement would have led to an accumulation of arrears and might have weakened the implementation of the program, undermining the position of the Moroccan authorities while creating doubts abroad about the program's implementation and delays in associated financing.

The Executive Board then took the following decision:

1. Morocco has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Morocco (EBS/83/78, August 19, 1983), and paragraph 2 of the letter of the Minister of Finance dated July 30, 1983 attached to the stand-by arrangement, in order to reach understandings subject to which purchases may be made by Morocco under the stand-by arrangement.

2. The letter of the Minister of Finance, dated May 18, 1984, shall be attached to the stand-by arrangement for Morocco, and the letters of July 30, 1983 and March 18, 1984 shall be read as supplemented by the letter of May 18, 1984.

3. Morocco will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Morocco's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota during any period in which the data for the first nine months of 1984 or for the entire year, respectively, indicate that:

(i) the ceilings on total net borrowing by the Treasury specified in paragraph 3 of the letter of May 18, 1984; or

(ii) the ceilings on total credit specified in paragraph 3 of the letter of May 18, 1984; or

(iii) the ceilings on net bank credit to the Treasury specified in paragraph 3 of the letter of May 18, 1984; or

(iv) the ceiling on increases in the fonds réservés specified in paragraph 3 of the letter of March 18, 1984; or

(v) the ceilings on contracting and guaranteeing new non-concessional external borrowing with a maturity of between 1 and 15 years, and 1 and 5 years, described in paragraph 6 of the letter of March 18, 1984; or

(vi) the ceilings on short-term external debt also described in paragraph 6 of the letter of March 18, 1984 are not observed.

4. The Fund finds that until November 30, 1984, Morocco may proceed to make purchases under the stand-by arrangement notwithstanding any arrears in payments and transfers for current international transactions in respect of the debts to commercial banks that are in the process of being rescheduled.

5. Paragraph 4(c)(i) of the stand-by arrangement for Morocco (EBS/84/178, Sup. 1) shall be amended to read as follows:

(i) during the entire period of this stand-by arrangement, while Morocco has any overdue financial obligation to the Fund, or if Morocco....

Decision No. 7796-(84/136), adopted
September 6, 1984

2. NICARAGUA - OVERDUE FINANCIAL OBLIGATIONS - REVIEW OF DECISION RELATING TO COMPLAINT UNDER RULE K-1

The Executive Directors considered a memorandum by the Managing Director on Nicaragua's overdue financial obligations to the Fund, together with a proposed decision recommending that the review of Decision No. 7720-(84/88) adopted on June 6, 1984, be completed not later than December 6, 1984 (EBS/84/48, Sup. 3, 9/5/84).

Mr. Senior reported that on September 5, 1984, Nicaragua had made an additional substantial payment to the Fund, settling all obligations accrued since June 6, 1984. With that payment, Nicaragua remained current in all charges due to the General Department and to the SDR Department and also reduced the total of its overdue obligations to the Fund outstanding on June 6, 1984 as well as the balance of a compensatory financing repurchase that had been due since mid-August 1983.

The effort by the Nicaraguan authorities was significant, Mr. Senior considered, especially taking into consideration the external forces affecting economic performance and the traditional seasonality of Nicaragua's exports and foreign exchange receipts; those receipts were at the lowest point of the year when the need for imported inputs was at its peak. Such an effort underscored the authorities' commitment to solving the problem of overdue payments to the Fund as soon as possible as well as the feasibility of reducing arrears since no new repurchases would be coming due in the future. The Nicaraguan authorities wished to reiterate their firm commitment to regularizing their current situation with the Fund at the earliest possible date. The authorities intended to continue their consultations with the Managing Director at the time of the Annual Meetings shortly thereafter. On the basis of the progress achieved and the scheduled consultations, the authorities had requested a three-month postponement of the review of Decision No. 7720-(84/88), which called for the review not later than September 6, 1984.

Mr. Leonard recalled that during the June 6 discussion on Nicaragua's overdue financial obligations (EBM/84/88, 6/6/84), his chair had welcomed the efforts by the Nicaraguan authorities to meet their overdue obligations. Their attitude had been positive; they had recognized that the failure to settle their liabilities could be prejudicial to the Fund. It had thus been appropriate to provide time for Nicaragua to effect arrangements to meet its obligations; accordingly, he had supported the decision before the Board.

Further consultations with the Nicaraguan authorities following the June decision showed considerable progress, Mr. Leonard commented. It was encouraging that newly accrued obligations had been substantially settled, that the total amount outstanding had been brought down, that there were good prospects for arrangements to regularize Nicaragua's overdue obligations to the Fund, and that the issue was being handled with urgency. The authorities should be given a reasonable time to complete those arrangements. The terms of the decision were appropriate, but in supporting it, he stressed the crucial importance of the early elimination of the arrears, and he hoped that the arrangements to that end would be promptly and successfully concluded.

Mr. Nimatallah said that he could support the proposed decision. Despite the difficulties that they were facing, the Nicaraguan authorities were attempting to meet their obligations. Although he was aware of their need for more time, it should be made abundantly clear to the authorities that they should not hope for additional extensions and that they should do their utmost to settle their obligations to the Fund. Their success in doing so would be in their favor in the medium and long run. He was concerned by the growing number of countries with overdue obligations to the Fund and the amounts of those obligations; therefore, he hoped that the Executive Board would discuss the question early in 1985.

With regard to the proposed decision, Mr. Nimatallah suggested that in paragraph 3, the reference in the second sentence to the "Fund" should be changed to refer to the "Executive Board." He also suggested that the words "concerning Nicaragua's specific plans" might be changed to "indicating Nicaragua's..." to show that the Managing Director would also be seeking explanation of the member's plans and that the phrase "elimination of the remaining overdue obligations" be changed to "elimination of any remaining..." to avoid an incorrect reference to the figures on arrears as indicated in EBS/84/48, Supplement 3.

The staff representative from the Legal Department agreed that Mr. Nimatallah's first and third suggestions raised no legal problems. The second suggestion might limit the scope of the report because the Managing Director's report not only would "indicate" Nicaragua's plans but also would present an analysis and views.

The Chairman suggested that it might be preferable to use the words "dealing with Nicaragua's specific plans."

Ms. Lundsager said that she agreed that completion of the review should take place no later than December 6, 1984. During the discussion on Guyana (EBM/84/131, 8/31/84), her chair had raised several issues regarding overdue payments to the Fund. She would not repeat those concerns at the present time, as the Managing Director's progress report would be available in early October. Although they had made some payments, she urged that the Nicaraguan authorities should settle promptly all overdue payments to the Fund.

The Chairman commented that he was grateful to Mr. Senior, Mr. Feito, and Mr. Conrado for their cooperative spirit in actively consulting with the Nicaraguan authorities.

The Executive Board then approved the following decision:

1. In accordance with Decision No. 7720-(84/88), June 6, 1984, the Managing Director has consulted with the Nicaraguan authorities regarding the prompt elimination of Nicaragua's overdue financial obligations to the Fund.

2. The Fund has noted the facts described in EBS/84/48, Supplement 3, September 5, 1984 pertaining to Nicaragua's payments to the Fund and the preparation of arrangements by Nicaragua to settle the remaining overdue obligations as a matter of urgency.

3. The Fund calls upon Nicaragua to become current promptly in its financial obligations to the Fund. The Executive Board looks forward to a further report by the Managing Director soon after the 1984 Annual Meeting dealing with Nicaragua's specific plans for the prompt elimination of any remaining overdue obligations to the Fund.

4. The Fund shall complete its review of Decision No. 7720-(84/88) not later than December 6, 1984.

Decision No. 7797-(84/136), adopted
September 6, 1984

3. EDUCATION ALLOWANCE - REVIEW

The Executive Directors considered a proposal relating to the adjustment of the education allowances for the 1984/85 academic year (EBAP/84/173, 8/14/84), which had been placed on the agenda at the request of an Executive Director.

Mr. Templeman said that during the Board's recent discussion on staff compensation (EBM/84/107 and EBM/84/108, 7/16/84, and EBM/84/109, 7/17/84) his chair had stressed that all benefits should be reviewed and evaluated along with direct salaries. While he regretted having to take the time of the Board on the present issue, considering the length of the discussion on staff salaries, his authorities wished to register their objection to the proposed increase in education allowances. His limited canvassing of the Board led him to expect little agreement that the increase should not go forward. However, the pending change presented him with the opportunity to stress once again the belief of his authorities that the upcoming review of compensation should include all aspects of compensation, including the benefit under consideration.

It was important that the report of the joint Fund-Bank committee currently reviewing expatriate benefits be considered during the discussion of compensation, Mr. Templeman remarked. He would not dwell on the substance of the education allowance at the present time nor on the issue of the structure and parameters of the upcoming overall review, as he assumed that there would be an opportunity to discuss those questions in the near future; however, in mid-1980 his chair had registered objections to the extension of the education allowance to include all nonduty station countries.

He wondered when the Board would consider the terms of reference and timetable for the joint compensation review, Mr. Templeman added. In addition, in order to minimize the number of discussions on items of the present type he asked whether the Administration Department could prepare a list of possible adjustments in benefits or compensation of any kind that might be proposed in coming months. If other Directors were not interested in such a list, his office would consult bilaterally with management or the Administration Department.

Mr. Clark said that he supported the proposed increases; he wondered whether expatriate benefits would be included in the review of compensation.

Mr. Morrell said that he also supported the proposed increases but joined Mr. Clark in inquiring whether allowances of the present type would be considered in the general review of staff compensation.

Mr. Scholten said that he supported the proposed decision.

The Deputy Director of the Administration Department explained that general salary reviews and benefits had been--and should be--kept separate from the question of expatriate benefits, in accordance with the mandate given by the Board at EBM/81/88 (6/10/81), during the discussion of the 1980 compensation review. The staffs of the Fund and Bank had been unable to agree on changes in certain aspects of expatriate benefits for recommendation to their respective Executive Boards. As a result, a joint working group of Executive Directors had been set up; the group had presented its report recently, and the staff was in the process of preparing a paper for presentation to the Board. That report would give comprehensive coverage to questions concerning expatriate benefits, such as eligibility for education allowance and home leave travel. As a separate exercise, the staff had begun drafting terms of reference for a review of certain aspects of the compensation system that would be undertaken by a second joint working group of Executive Directors.

The Chairman suggested that the terms of reference of the joint committe on compensation should be discussed in early October. At that time, Mr. Templeman could express his view that expatriate benefits should be considered as part of the compensation issue.

Mr. Joyce said that he endorsed the Deputy Director's comment that issues touching all staff should be discussed separately from those that concerned expatriates only. Any suggestion to determine educational benefits in conjunction with increases in salary or general benefits should be resisted.

The Deputy Director of the Administration Department, in response to a question, confirmed that the Board would next consider staff benefits when it took up the expatriate benefits review, which would reflect the findings of the report prepared by the joint working group.

Mr. Joyce wondered whether it would not be advantageous for Executive Directors to consider the joint working group's report in greater detail in committee before the general policy discussion in the Board. He could, however, accept detailed discussion in the Board.

Mr. Templeman said that his authorities' request to place the present item on the Board's agenda reflected their interest and their desire for Board consideration of benefits issues. He would not suggest a change in normal procedures, but he believed that the terms of reference and the timetable for the overall review should be determined by the Board.

The Deputy Director of the Administration Department commented that as the working group's report was the result of the Board's request for a review of all expatriate benefits, it should be considered by the full Executive Board. Nevertheless, it was up to the Executive Board to decide on whatever procedure it considered more expedient. The matters for discussion would include such questions as eligibility criteria and frequency of home leave travel. The discussion should not be protracted because the proposals in the report would entail no additional costs but rather a greater frequency of travel at the same cost.

The Chairman stated that it would be more appropriate for the matter to be taken up in the Executive Board.

The Executive Board then took the following decision:

a. The maximum allowance for tuition in the staff member's country of assignment shall be increased to $4,000 from $3,700 per annum.

b. The "base" maximum allowance for tuition and boarding for children studying outside the staff member's country of assignment shall be increased to $5,800 from $5,400 per annum.

c. When children are studying outside the staff member's country of assignment, the "base" subsistence grants at primary and secondary school levels shall be raised to $1,400 from $1,300 per annum, and at post-secondary level to $2,800 from $2,600 per annum.

Adopted September 6, 1984

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/135 (9/5/84) and EBM/84/136 (9/6/84).

4. RULES FOR 1984 REGULAR ELECTION OF EXECUTIVE DIRECTORS - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBD/84/190, Sup. 1, 9/5/84) on the canvass of votes of the Governors on Resolution No. 39-2, with respect to the Regulations for the Conduct of the 1984 Regular Election of Executive Directors, approved by the Executive Board (EBM/84/112, 7/20/84) for submission to the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes		897,065
Total negative votes		0
Total votes cast		897,065
Abstentions recorded	0	
Other replies	1,641	
Total replies		898,706
Votes of members that did not reply		30,452
Total votes of members		929,158

Decision No. 7798-(84/136), adopted
September 5, 1984

5. SIERRA LEONE - 1984 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1984 Article IV consultation with Sierra Leone to not later than October 31, 1984. (EBD/84/233, 9/4/84)

Decision No. 7799-(84/136), adopted
September 5, 1984

6. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 84/45 through 84/47 are approved. (EBD/84/227, 8/29/84)

Adopted September 5, 1984

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/190 (9/4/84) is approved.

APPROVED: June 25, 1985

LEO VAN HOUTVEN
Secretary