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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/151

3:00 p.m., October 15, 1984

J. de Larosière, Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| A. Alfidja | W. B. Tshishimbi |
| | M. K. Bush |
| J. de Groote | |
| | X. Blandin |
| | C. A. Salinas, Temporary |
| M. Finaish | |
| H. Fujino | T. Yamashita |
| | B. Goos |
| | Jaafar A. |
| | L. Leonard |
| | H. A. Arias, Temporary |
| | I. Angeloni, Temporary |
| R. N. Malhotra | |
| | E. M. Taha, Temporary |
| J. J. Polak | |
| | A. J. Tregilgas, Temporary |
| G. Salehkhou | O. Kabbaj |
| F. Sangare | |
| | J. E. Rodríguez, Temporary |
| | A. Lindø |
| | D. J. Robinson, Temporary |
| | Wang E. |

J. W. Lang, Jr., Acting Secretary
R. S. Franklin, Assistant

Also Present:
African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; M. W. Bell, S. E. Cronquist, A. Jbili, B. R. H. S. Rajcoomar, M. Sidibé. Exchange and Trade Relations Department: S. Kanesa-Thasan, B. J. Nivollet. Legal Department: W. E. Holder. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: L. K. Doe, J.-C. Obame, A. Vasudevan. Assistants to Executive Directors: W.-R. Bengs, M. Camara, G. Ercel, C. Flamant, N. Haque, H. Kobayashi, M. Lundsager, E. Olsen, J. K. Orleans-Lindsay, Shao Z.

1. RWANDA - 1984 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1984 Article IV consultation with Rwanda (SM/84/212, 8/29/84; and Cor. 1, 9/5/84). They also had before them a report on recent economic developments in Rwanda (SM/84/219, 9/26/84).

Mr. Alfidja made the following statement:

> The sustained expansion that characterized the economy of Rwanda during the late 1970s and early 1980s has slowed down during the last two years. Indeed, the rate of increase of real GDP which averaged nearly 5 percent during 1977-81 is estimated to have declined to 4 percent in 1982 and 3.5 percent in 1983. This downtrend reflected chiefly developments in the main economic sector, namely, agriculture, and to a lesser extent in manufacturing and trade-related activities. The evolution of agricultural output in 1983 resulted largely from the combined effect of a decrease in food crops production (chiefly bananas, vegetables, and starchy crops) and a rise in the output of the major cash crops (coffee and tea). The supply of extension and nursery services as well as the payment of adequate prices to coffee producers have contributed especially to the higher harvest of cash crops. The performance of the manufacturing sector was mixed in 1983. Indeed, while the production of beer (the main industrial activity) decreased by nearly 12 percent in 1983 due in part to lower demand, a moderate expansion was registered in the output of some other manufactured products. For 1984, a further slowdown in the overall economic activity is forecast on account of a decrease in the output of all major food and cash crops due to a severe drought.
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> The deceleration in overall economic activity registered in Rwanda during the last few years is not a welcome development when considered against the backdrop of performance during the preceding years. However, the achievement of positive rates of economic expansion in excess of 3 percent per annum should not be understated--especially on a continent where many countries have recorded a decrease in real GDP for several consecutive years. Rwanda's achievement is all the more noteworthy considering the existing constraints--small and landlocked area, high transportation costs, drought--to name only a few. Furthermore, the breakdown of total output in major expenditure categories shows that, unlike many other countries, the ratios of saving and investment to GDP have risen since 1982.
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> Regarding price developments, after doubling in 1982 due to the upward adjustment in water and electricity tariffs as well as in education fees, the rate of increase in the consumer price index is estimated to have decreased to less than 7 percent

in 1983. A further slowdown could occur in 1984 if, inter alia, the food supply situation does not deteriorate.

In the fiscal area, the deterioration in the overall outturn of central government financial operations which began in 1981 continued through 1983 when the deficit reached the equivalent of 2.3 percent of GDP, despite a marked slowdown in expenditure growth to about 5 percent as compared with 34 percent and 11 percent in 1981 and 1982, respectively. The slow growth in revenue of less than 4 percent in 1982 and 1983 was a major contributory factor to the unsatisfactory overall fiscal performance during those years. This sluggish evolution of government receipts reflected a stagnation of revenue from coffee export taxes and a return to normal income tax flows following a large collection of income tax arrears in 1981. On the expenditure side, a small rise in the total wage bill and higher interest payments were principally responsible for the moderate increase in current outlays in 1982 and 1983. Capital expenditure decreased by 5 percent in 1983 after a 23 percent rise in 1982. In order to contain the deterioration of the fiscal situation, the Government raised excise taxes on beer and cigarettes in 1983, granted no general wage increase, and restrained hiring. On the basis of preliminary estimates, the overall fiscal outlook of government operations might improve in 1984 thanks to a faster revenue expansion and a further slowdown in expenditure growth. The performance of some of the major public enterprises will be subject to closer scrutiny as their accounting and budgeting procedures are reviewed.

The deterioration in the financial position of the Central Government is a subject of concern to my authorities and the revenue-increasing and expenditure-containment measures taken are indicative of this preoccupation. However, I would like to make a few observations. First, Executive Directors should not lose sight of the fact that Rwanda is a developing country confronted with considerable obstacles to rapid economic growth and development. A fiscal deficit representing less than 3 percent of GDP in such a country is hardly out of the ordinary. In fact, many developing as well as developed countries have not displayed a similar performance in recent years. Second, the importance of the Government sector in the overall economy as apparent from the size of the fiscal indicators in Table 13 of SM/84/219 (page 33) is rather limited. Therefore, a realistic evaluation of the fiscal performance in Rwanda is called for. The Government's intention to scale down expenditure should the revenue performance so require as reported by the staff (SM/84/212, page 14), is indicative of its concern about maintaining a proper balance between private and public sector activities and resources. Third, the increase in capital outlays noted in the recent past arose from the need to provide a domestic counterpart to the foreign concessional loans granted for the financing of development projects. It is the opinion of my authorities that the need for a strong financial position of the Central Government must be considered realistically against the Government's duty to provide some public services at reasonable costs to the users.

Developments in the monetary sector have mirrored closely fluctuations in the activities and needs of major users of bank credit such as the Central Government, the mining and export crop sectors. The prospective improvement in the government finances would contribute to the slowdown of domestic credit expansion in 1984. As stated by the staff, the expansion of banking services to rural areas is having a favorable impact on the mobilization of financial resources. Measures aimed at reinforcing the effectiveness of credit control instruments are also being examined.

In the external sector, the current account deficit narrowed to 3 percent in 1983, down from nearly 6 percent in 1982, thanks to the recovery of exports (16 percent) and a decrease in imports (6 percent). The rise in export earnings in 1983 was largely due to a 26 percent increase in the volume of coffee export, the unit price of this crop having fallen by 4 percent. Export earnings of tea also rose significantly in 1983, reflecting both price and volume increases. The favorable impact of the aforementioned improvement in the current account balance and the rise in net public capital inflows in 1983 was partly offset by the decrease in direct investment. However, the overall balance of payments deficit was more than halved to SDR 17 million in 1983. The current account position is forecast to deteriorate marginally in 1984 on account of a less favorable service account position. On the other hand, the capital account is projected to improve due mainly to a further increase in public capital inflows. Consequently, the overall balance of payments deficit is projected to remain virtually unchanged. The external debt service ratio is relatively low, hovering around 6 percent, with no major change forecast for 1984 likewise.

Regarding exchange rate matters, as reported by the staff, the Rwandese authorities switched the peg of the Rwanda franc from the U.S. dollar to the SDR, effective September 6, 1983. In the process, the local currency was depreciated by 5.2 percent at midpoint vis-à-vis the U.S. dollar. The change of the peg has provided some stability to the rate of exchange of the Rwanda franc. Concerning the appropriateness of the exchange rate, the Rwandese authorities had useful exchange of views with the Managing Director in the course of the last September Annual Meetings and agreed to pursue technical discussions with the Fund's staff with a view to narrowing the existing differences.

> To sum up, the financial difficulties that Rwanda experienced in 1982 have continued in 1983. This deterioration is a matter of concern to the national authorities. They intend to monitor closely the performance in the present year and eventually take measures aimed at averting a further worsening. In this vein, they are examining all the available macroeconomic instruments at their disposal and importantly their effectiveness in dealing with the financial and economic difficulties confronting the country without tearing its social fabric.

Mr. Sangare considered that Rwanda had weathered the global recession better than many countries, with real economic growth having averaged 4.3 percent over the period 1980-83. However, given the high rate of population growth, real per capita GDP had not been positive and, with the projected slowdown in economic activity in 1984, the standard of living of the population was expected to decline. It was thus important for the authorities to continue pursuing policies aimed at raising productivity and increasing the level of investment in activities that were directly productive. Problems had arisen with respect to some of the government investment projects in the past: newly built tea factories, for example, had been underutilized because of excess capacity; and a tin smelting plant had had to be built on a larger scale than necessary because of technical constraints. The lesson to be drawn from those problems and others was that the authorities needed to be more careful in appraising investment projects in order to improve the allocation and use of scarce resources. They also needed to maintain renumerative producer prices in various sectors of the economy in order to induce a higher level of investment and to stimulate output, particularly in the agricultural sector. He was happy to note that the authorities were cognizant of those needs.

An important issue for discussion with respect to the budget was the high level of domestic bank financing of the deficit, Mr. Sangare remarked. The authorities were apparently aware of the need to improve the situation and had already taken a number of new revenue-raising measures and some steps aimed at restricting the growth in expenditures. However, the staff had expressed some doubts about the impact of the new tax measures. In other countries pursuing policies aimed at restricting demand, an upward adjustment of import duties--a major part of the tax package in Rwanda for 1984--had not led to an increase in revenue. Also, too high excise taxes on domestic output of goods such as beer had been known in other cases not to produce the desired results. Rwanda itself had in fact experienced similar difficulties, the production of beer and cigarettes having fallen sharply in 1983 because of the adverse impact of increased excise taxes. In the circumstances, it would be better for the authorities to err on the side of caution and to begin thinking about alternative measures for reducing the budget deficit in case those that had been put in place fell short of expectations.

On the matter of the exchange rate, Mr. Sangare noted that the staff believed that a devaluation was necessary at the present stage in Rwanda's adjustment process, but the authorities had expressed some doubts about the beneficial effects of such action. His own feeling was that the staff could have presented better arguments in support of its view; a stronger case might have helped persuade the authorities, who had indicated their willingness to act flexibly if necessary.

Mr. de Groote considered it regrettable that in the 18 months since the most recent Article IV consultation with Rwanda--during the discussion of which the Executive Board had made straightforward policy recommendations--no real adjustment had taken place in the economy; indeed, the underlying disequilibria had worsened. The only positive development had been the apparent improvement in the external accounts in 1983, which had been due largely to the restrictive measures that the authorities had introduced in that year to protect the balance of payments in the face of an overvalued exchange rate compounded by rising government spending.

Rwanda represented nearly a textbook case of an economy suffering from the harmful effects of an overvalued exchange rate, Mr. de Groote remarked. The loss of market shares in neighboring countries for industrial goods, the decline in exports of dried flowers, the high producer prices that had led to the closing of the plant processing quinine bark into quinine sulfate, the poor financial situation of the mining company, the poor performance of revenues from coffee export taxes, and the decline, in real terms, of inflows of official transfers could all be traced to the overvaluation of the exchange rate, by about 45 percent in real effective terms. In the circumstances, it was hardly surprising that the authorities were having difficulty setting producer prices at remunerative levels or that they were able to do so only through indirect subsidies such as the provision of extension services free of charge.

Apart from the exchange rate, all other elements of the economy had been exceptionally well managed, Mr. de Groote continued. Unfortunately, as time passed, the situation could only deteriorate; and further delays in adjusting the rate would only make inevitable a larger devaluation with its consequent adverse effects on the incomes of the population. There must be a way to explain to the authorities, as Mr. Polak had convincingly suggested on the occasion of the previous Article IV consultation discussion, that what was expected was not a measure that would sanction incorrect budgetary or monetary policy through a devaluation, but only a change that would offset a historical "accident" whereby Rwanda's currency had been pegged to the U.S. dollar and had thus made the Rwanda franc one of the strongest currencies in the world. Unfortunately, the effects of that "accident" had not been fully corrected on the occasion of the adoption of the SDR peg. It was truly regrettable that in an otherwise well managed country, already one of the poorest in the world, events must first show damaging effects on incomes and development of an inappropriate exchange rate before action could be induced.

In that regard, all the damaging effects that had been forecast during the previous consultation had since materialized and Directors should not be fooled about the reasons for the fiscal measures recently introduced in Rwanda; they would not have been necessary if public finances and export proceeds had been at realistic levels in terms of national currency.

He had been particularly interested in Mr. Alfidja's comments on the appropriateness of the exchange rate and on the indications that the Rwandese authorities had held a useful exchange of views with the Managing Director during the course of the 1984 Annual Meetings, Mr. de Groote said. As he understood it, the authorities had agreed to pursue technical discussions with the staff with a view to narrowing existing differences; and he hoped that a Fund mission for that purpose could visit Rwanda in due course. In the meantime, management should perhaps try to clarify further for the Rwandese authorities the adverse effects of an overvalued exchange rate.

Ms. Bush remarked that since the previous Article IV consultation the economic situation in Rwanda had improved slightly, although the current situation was not sustainable. The improvement could be seen in the reduced inflation rate (projected to be 5 percent for 1984), the reduced budget deficit (down to 1.3 percent of GDP on a commitment basis in 1984), and the lower current account deficit, which had fallen to 3 percent of GDP in 1983 from 5.8 percent of GDP in 1982. However, the continued decline in official reserves--which had fallen by $20 million between December 1983 and August 1984--indicated the continued lack of equilibrium. Gross official reserves at the end of August had been sufficient to cover 4 1/2 months of imports. While reserves in Rwanda were still at a higher level than in many African countries, a continuation of their steady decline might force the authorities to take adjustment measues that were far more serious than those indicated at present.

Another negative signal concerned the current account deficit, the apparent improvement in which was unsustainable because import growth had been constrained artificially by use of licensing and other controls, Ms. Bush continued. When used for a long period of time, such controls distorted economic activity by impairing the efficiency of consumer and producer decision making. It should be noted as well that by limiting the quantity of goods available, import controls, for example, could have the effect of reducing the standard of living.

The authorities were claiming that a devaluation would reduce real incomes, Ms. Bush observed. In her view, however, a more realistic exchange rate would have beneficial effects on the economy over the medium term; more specifically, the price signals given by a devaluation should lead to the needed permanent change in the production and consumption pattern in Rwanda and should stimulate growth by improving demand for traded goods.

A devaluation would be most effective if accompanied by tighter monetary and fiscal policies, Ms. Bush considered. The 1984 budget already appeared somewhat restrictive, with subsidies and transfers having been reduced by 31 percent among other measures. In that regard, she would appreciate an update regarding parliamentary approval of the buget and a clarification of whether the treasury cash deficit for 1984 would be 1.7 percent of GDP including the reduction in arrears. While the budget was tight, the monetary policy currently being followed was one of accommodation to public sector demand for credit; her recommendation was for a less accommodating monetary policy in conjunction with an exchange rate adjustment to help contain the increase in prices that would otherwise follow a depreciation of the Rwanda franc. In that vein, a more flexible interest rate policy would encourage further increases in the savings rate by making reduced consumption more palatable.

On production and pricing policies, Ms. Bush encouraged the authorities to carry through on their plan to sell some factories to the private sector. She could agree with the staff's emphasis on the importance of increasing producer prices and found it difficult to believe that coffee prices were at present fully remunerative, especially given the 32 percent decline in the real price of coffee since 1979. However, as reported on page 11 of SM/84/219, the number of farmers applying for licenses to grow coffee was constantly increasing. She would therefore welcome some clarification of the degree of profitability of the coffee sector.

Remarking on the medium-term projections in Table 5 of the staff report (SM/84/212), Ms. Bush observed that the overall deficits projected for the next five years did not appear exceedingly large. However, if the deficits expected for the next three years were financed by drawing down official reserves, gross reserves at year-end 1987 would cover only one month of imports. Rwanda had thus far avoided accumulating significant amounts of foreign debt, and she urged the authorities to continue with their prudent debt strategy and to implement stronger adjustment measures, including an appropriate change in the exchange rate, in order to return to a sustainable balance of payments position. Such an approach would also permit the elimination of the exchange restrictions currently in place. She welcomed Mr. Alfidja's indication that technical discussions would be held with the Fund staff regarding the appropriateness of the exchange rate; in the meantime, she agreed with the staff that Rwanda's exchange restrictions should not be approved. Finally, she could support the proposed decision.

Mr. Leonard remarked that, in 1982 and 1983, short-term economic management of the economy of Rwanda had been in a sort of "blind alley." Elements of policy had been in conflict with one another, and there might have been overoptimistic expectations by the authorities about what could be achieved through fiscal action. In the two years concerned, the fiscal stance had been markedly expansionary, with budgetary expenditures increasing at two to three times the rate of revenues. There had also been considerable recourse to the Central Bank, the commercial banks, and nonbank sources to finance widening government deficits; at the same time, monetary policy had been accommodating.

Little of lasting benefit had resulted from those policies, Mr. Leonard continued. Output of food and export crops had depended more on the weather, external trading conditions, and the exchange rate than on the level of domestic demand. Mining output had been largely influenced by export prices and the exchange rate and, in manufacturing, a variety of factors peculiar to individual sectors had affected production. Overall, the rate of economic growth had slowed, falling from an average of 4.8 percent a year in 1981-82 to about 3.8 percent in 1982-83.

The costs of the fiscal stance and the overvalued exchange rate had been more evident than the benefits, Mr. Leonard considered. Inflation--which had been falling until 1981--had risen again, and heavy current account deficits had been incurred. Reserves had been depleted, falling from the equivalent of 7 1/2 months' imports in 1981 to the equivalent of 5 months' imports by 1983; in addition, debt service costs to the Government had risen at over four times the rate of increase in government revenues. Fortunately, the mistaken directions of policy and the accompanying loss of resources had not been allowed to go too far. The central government buget deficit was still quite manageable, at less than 2.5 percent of GDP, and the external current account deficit, after having risen to nearly 6 percent of GDP in 1982, had been reduced to 3 percent of GDP in 1983. External public debt outstanding had been below 15 percent at the end of 1983, and the external debt service ratio was about 5 percent. However, the rising proportion of tax revenue that was required to cover interest on the public debt was disturbing. Those payments, together with amortization costs, were at present equivalent to nearly one sixth of tax revenue.

The first requirement in Rwanda's case was to arrest the deteriorating trends of the past two years and to recover the ground lost in the management of the public finances, Mr. Leonard commented. His chair welcomed the corrective exchange rate and budgetary actions taken during 1983 and 1984; however, there remained in prospect a budgetary deficit in 1984 that might be even greater than projected at present. It was also particularly disturbing to note that different policy elements continued to be at cross-purposes and that likely increased borrowing by the Treasury would run counter to the authorities' intention to contain demand. In the view of his chair, more resolute and coordinated action by the authorities was desirable. In particular, strong fiscal measures to limit expenditures and increase revenue receipts were called for; a tighter fiscal stance, together with exchange rate adjustments, should help to restore external balance and encourage domestic production and growth. Information in the staff papers suggested that a more general policy approach of that sort stood a better chance of securing the needed results, so long as the capacity to execute effective administrative actions was as limited as was the case in Rwanda. He could also support the staff arguments in favor of changes in the domestic price structure to help stimulate output apart from what would be achieved through movements in the exchange rate.

A return to sound demand management would win only half the economic battle in Rwanda, Mr. Leonard noted. It was disappointing in that respect to see in SM/84/219 so little information about the Third Development Plan or the progress in implementing it. The record of industrial project planning and the performance of parastatal bodies in Rwanda had been poor; clearly, better investment preparation and an upgrading of administrative and managerial skills were needed. He was happy to see that the authorities were aware of the problem and had given appropriate emphasis to education policy. They were undoubtedly focusing their attention in the right direction; it only remained for them to make progress. In the meantime, he hoped that the Fund and the Bank would underpin the efforts of the authorities with substantial technical assistance.

Mr. Wang observed that there was some disagreement between the authorities and the staff on the matter of the devaluation of Rwanda's currency. The authorities maintained that an inappropriate devaluation could result in an acceleration of inflation and a decline in the real incomes of wage earners, both of which could have social and political implications. He would be interested in the staff's response to that argument.

Mr. Polak recalled that at the time of the previous Article IV consultation discussion some 18 months earlier, Rwanda had been suffering under a burden that was similar to its present difficulties--namely, an inappropriate exchange rate and an overvalued currency, neither of which could be blamed on domestic economic policy. As early as 1974, Rwanda had taken the step--which had appeared reasonable at the time--of pegging its currency to the U.S. dollar. That action had been creating problems since 1980, when the sharp rise in the U.S. dollar had made the Rwanda franc highly overvalued.

His recommendation at the previous Article IV discussion had been to change the peg from the U.S. dollar to the SDR and to take the opportunity of the switch to devalue the currency, Mr. Polak said. Rwanda had followed that advice in September 1983; unfortunately, the 5 percent devaluation had not been nearly sufficient, and he strongly urged the authorities to overcome their hesitation and to make an adequate correction of the exchange rate. Of course, such a change could occur only when the country had been convinced that a larger devaluation was in its interest; and Mr. Alfidja had suggested in his statement that the authorities had not been convinced of the desirability of a further devaluation. Indeed, they had cited a number of other cases in Africa where devaluations had proved quite unsatisfactory. In the circumstances, what was called for was a process of open-minded discussion, and he therefore welcomed the agreement reached between the Managing Director of the Fund and the authorities of Rwanda during the 1984 Annual Meetings on the holding of technical discussions with the staff. It was to be hoped that those discussions would allow the staff to justify its belief that a devaluation would benefit Rwanda's economy and would not produce the disadvantages at present feared by the authorities. In that regard, perhaps the examples of certain other African countries where devaluations had not been successful could be looked at in greater detail to make the point that a devaluation would never be successful without supporting measures.

Mr. Blandin reiterated the view of his chair that the switching of Rwanda's peg from the U.S. dollar to the SDR in 1983 had indeed provided greater stability for the exchange rate but had not thus far sufficiently conterbalanced the sharp appreciation of the currency that had been taking place since 1980. As previous speakers had observed, the overvalued exchange rate, in 1983 and 1984, had had a negative impact on the fiscal deficit and on the balance of payments results. An exchange rate adjustment was thus warranted. While such a change might have a negative impact in the short term, there was no doubt in his mind that it would have very positive effects over the medium term and would therefore be seen as a key element in a successful investment program for Rwanda. He welcomed the indication from Mr. Alfidja that the authorities were continuing technical discussions with the staff; he hoped those discussions would lead to a narrowing of the differences of view.

The staff representative from the African Department, responding first to a question by Ms. Bush on profitability in the coffee industry, noted that real producer prices had indeed declined significantly. However, inputs and extension services were provided free of charge to coffee growers; moreover, by comparison with farmers producing other crops, coffee growers continued to receive a regular income, even if it was falling in real terms. Hence, while coffee growers in the absolute sense might not be as well off as they had been in the past, they still appeared to be better off than other farmers, a point that might explain the continuing interest in licenses to grow coffee.

On the different attitudes taken to the possibility of a further devaluation, the staff representative remarked that both the authorites and the staff were well aware that some short-term negative effects were likely. However, the staff had been attempting to impress upon the authorities that the policies they had been pursuing thus far had contributed significantly to the deterioration in the economic and financial situation in Rwanda, and that they should look instead at the medium-term impact of a further devaluation with appropriate supporting measures. Exchange rate action supported by appropriate measures, for example, would make less painful the efforts of the authorities to bring their budget under control while helping them to achieve their medium-term economic objectives through a change in the relative price structure. A devaluation could also help to ease the domestic resource constraints.

Mr. Alfidja said that he would convey the comments of his colleagues to his authorities in Rwanda.

The Chairman *made the following summing up in concluding the discussion:*

Directors were in general agreement with the thrust of the views expressed in the staff appraisal in the report for the 1984 Article IV consultation with Rwanda. They noted that, during the past two years Rwanda's economy had demonstrated the adverse results of a loosening of demand management policies and an inappropriate exchange rate policy, which had been compounded by unfavorable external conditions. While growth in the past had taken place in an environment of internal and external stability, economic expansion over the past two years had slowed and had been accompanied by a substantial deterioration in the budget and the balance of payments position. Increased pressure had also been brought to bear on the Government's fiscal situation by the precarious financial position of a number of public and mixed enterprises.

Directors stressed that supply policies should continue to accord priority to productive and employment-generating investments, and they underscored the importance of ensuring that producer prices remained sufficiently remunerative. In view of the emergence of large financial imbalances, the recourse to exchange restrictions, the decline in reserve and the uncertainties regarding external conditions, Directors urged the authorities to adopt a comprehensive adjustment program encompassing a correction of the exchange rate. Directors pointed out that the exchange rate action taken in September 1983, although in the right direction, had been inadequate to restore a viable exchange rate situation. Further action, accompanied by appropriate demand management and incomes policies, should ease domestic resource constraints, improve competitiveness, and more generally help achieve the country's medium-term economic objectives. It should also make less painful the authorities' efforts to bring the budget under control. Directors commented that the alternative policy of imposing restrictions would, in their view, be more harmful to the structure of the economy and its efficient operation, and they emphasized the need for the speedy elimination of existing restrictions. In that connection, they welcomed the forthcoming discussions between the authorities and the staff on the question of the exchange rate and the supporting measures and stressed the urgency of those discussions.

Directors also underscored the need for fiscal restraint and more prudent monetary policy. While noting the corrective measures introduced in the context of the current budget, they cautioned that the revenue projections might be too optimistic and the overall deficit higher than budgeted. They considered that the growth of total expenditure should be curtailed further and that additional domestic resources should be mobilized through strengthened tax administration. Directors welcomed the authorities' intention to review budgetary procedures and controls and to improve revenue performance with IBRD and Fund technical assistance. They also saw a need to improve the financial performance of the state enterprises and carefully to select public investment projects. In that respect, they took note of the new government policy and urged its effective implementation with a view to eliminating the operating deficits of the state enterprises.

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

The Executive Board then adopted the following decision:

1. The Fund takes this decision relating to Rwanda's exchange measures subject to Article VIII, Section 2(a) and in concluding the 1984 Article XIV consultation with Rwanda, in the light of the 1984 Article IV consultation with Rwanda conducted under Decision No. 5392(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Since the last Article IV consultation Rwanda has introduced a restriction on payments and transfers for current international transactions, arising from the suspension of travel allowances, and intensified existing exchange restrictions, as described in SM/84/212. It also continued to maintain an advance import deposit requirement scheme, which has been modified so that it no longer gives rise to a multiple currency practice subject to Article VIII, Section 3. The Fund welcomes that latter action and encourages the authorities to eliminate the advance import deposit requirement scheme and the other exchange restrictions as soon as possible.

Decision No. 7826-(84/151), adopted
October 15, 1984

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/150 (10/12/84) and EBM/84/151 (10/15/84).

2. APPROVAL OF MINUTES

The minutes of Meeting 84/69 are approved. (EBD/84/262, 10/5/84)

3. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director and an Advisor to an Executive Director as set forth in EBAP/84/211 (10/11/84) is approved.

APPROVED: July 16, 1985

LEO VAN HOUTVEN
Secretary