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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/179

3:00 p.m., December 7, 1984

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	A. Koné, Temporary
	M. K. Bush
J. de Groote	
	C. Flamant, Temporary
	T. Alhaimus
	H. Kobayashi, Temporary
	D. Hammann, Temporary
J. E. Ismael	
R. K. Joyce	
	H. A. Arias, Temporary
	A. Vasudevan, Temporary
	A. Abdallah
	M. A. Weitz, Temporary
	J. E. Suraisry
	J. de la Herrán, Temporary
J. J. Polak	
	A. V. Romuáldez
G. Salehkhou	O. Kabbaj
J. Tvedt	
	T. A. Clark
	L. Tornetta, Temporary
	Wang E.

L. Van Houtven, Secretary
L. Collier, Assistant

Also Present

G. Rutihinda, Principal Secretary to the Tanzanian Treasury; J. Kipokola, Head of the Monetary and Fiscal Affairs Division of the Tanzanian Treasury. African Department: A. D. Ouattara, Director; R. J. Bhatia, Deputy Director; A. I. Abdi, N. Abu-zobaa, A. Basu, M. W. Bell, I. A. H. Diogo, A. G. A. Faria, E. K. Martey. European Department: T. H. Mayer. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; G. Begashaw. Fiscal Affairs Department: E. S. Kreis. Legal Department: Ph. Lachman. Western Hemisphere Department: E. Wiesner, Director. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: E. A. Ajayi, S. M. Hassan, G. W. K. Pickering, T. Sirivedhin. Assistants to Executive Directors: H. Alaoui-Abdallaoui, G. D. Hodgson, Z. b. Ismail, S. Kolb, M. Lundsager, E. Olsen, D. J. Robinson, A. H. van Ee.

1. TANZANIA - 1984 ARTICLE IV CONSULTATION

The Executive Directors continued from the previous meeting (EBM/84/178, 12/7/84) their consideration of the staff report for the 1984 Article IV consultation with Tanzania (SM/84/249, 11/6/84; and Sup. 1, 11/20/84), together with a proposed decision concluding the 1984 Article XIV consultation. They also had before them a report on recent economic developments in Tanzania (SM/84/256, 11/20/84).

Mr. G. Rutihinda, Principal Secretary to the Tanzanian Treasury, and Mr. J. Kipokola, Head of the Monetary and Fiscal Affairs Division of the Tanzanian Treasury, were also present.

Mr. Clark said that Tanzania suffered from a range of problems common to a number of African countries. The sharp decline in agricultural output, particularly of export crops, had resulted in severe foreign exchange shortages, which in turn had prevented essential imports, hampered development, and led to a buildup of arrears. In part, the situation reflected a series of external difficulties, culminating in the current drought. But, as the authorities themselves recognized, inappropriate domestic policies had also played an important role. It was encouraging that the staff and the authorities seemed to be in broad agreement on the diagnosis of the problems. The courageous measures that the authorities had taken in the June budget represented a significant first step in the adjustment process. The authorities' commitment to supply-oriented policies was also auspicious. However, for their full benefit to be felt, those measures would have to be accompanied by additional steps to improve producer incentives, including further adjustment of the exchange rate, which would have to play an essential role in any Fund program. As recent experience with the formulation of exchange rate policies in Fund programs suggested, in cases of severe exchange rate disequilibrium, the successful program typically began with a significant realignment.

While the authorities had made some progress in reducing the fiscal deficit from 16.5 percent of GDP in 1981/82 to 12.5 percent in 1983/84, it remained high, Mr. Clark remarked. Although the measures put forward in the latest budget, in particular those to eliminate a number of subsidies, were welcome, public savings were expected to remain at about minus 3 percent of GDP and the overall cash deficit to be over 12 percent of GDP. It was disappointing that the authorities saw no further scope for reductions in the deficit other than through revenue increases generated by economic growth. As the deficit was currently financed largely through the banking system, thus adding to inflationary pressures, early action in that area would be highly desirable.

He agreed with the staff that reform of the parastatals was urgent, Mr. Clark continued. Part of the decline in agricultural output had been due to the inefficiency of the crop marketing parastatals, which had reduced the funds for producer price increases. Recent press reports suggested that some parastatals had resorted to purchasing crops on credit. Without clear guidelines on the scope and timetable for reform, it was doubtful that the re-establishment of cooperatives would be able to provide an improved marketing network.

The poor performance of the agricultural sector lay at the heart of Tanzania's economic difficulties, Mr. Clark commented, and he agreed with the staff that the structure of producer prices was the key issue. An article in the December 1983 issue of Staff Papers, "Agricultural Responses to Prices in Sub-Saharan African Countries," indicated that crop production in southern Africa responded to price increases; therefore the announced increase in producer prices was a step in the right direction. But further adjustment would be needed, including larger increases in export prices to reverse the current disincentives for domestic crop production. To protect the position of parastatals dealing with export crops, exchange rate and producer pricing policies would have to be consistent.

On external policy, he was disappointed, even allowing for the statistical problems, that the staff had not been able to provide some medium-term projections, Mr. Clark said. The information in SM/84/249, Supplement 1, however, suggested that the debt service ratio would be nearly 80 percent in 1985, falling only to 40 percent by 1987. Those ratios were clearly not sustainable; they could intensify pressure for further import controls and could lead to an increased buildup of arrears. Additional action was thus needed to revitalize the export sector.

The measures the authorities had taken to deal with Tanzania's serious economic difficulties constituted a significant step forward, Mr. Clark concluded. But additional action--especially in the areas of the exchange rate and producer prices--would be necessary. He hoped that early agreement on a Fund-supported program would be possible; it would have the added benefits of facilitating rescheduling and unlocking further aid flows. He supported Tanzania's request for technical assistance in improving statistical reporting and the proposed decision.

Mr. Suraisry said that he welcomed the cooperation between the Fund and the World Bank, which had resulted in a common diagnosis of Tanzania's economic situation and the identification of an appropriate course of action for bringing the economy back on track; that kind of collaboration could be very helpful to countries like Tanzania. The authorities' successful efforts to make Tanzania current in its obligations to the Fund set an example for other countries with overdue obligations. Tanzania had proved that, if difficult economic problems were given enough attention and the right priority, obligations to the Fund could be met.

All macroeconomic aggregates indicated that the Tanzanian economy faced serious problems, Mr. Suraisry remarked. Real GDP had been declining for the past few years, the inflation rate had recently accelerated, the central government overall deficit was high, and the balance of payments position was weak. The situation called for firm and speedy action on all fronts. The authorities, beginning with fiscal year 1984/85, had taken commendable measures to come to grips with their economic difficulties. Nonetheless, in view of the size of the imbalances and the deep-rooted structural problems, more efforts would have to be made.

A substantial part of those efforts should be devoted to the supply side of the economy, Mr. Suraisry commented. The declining trend in real GDP over the past years was a symptom of serious structural problems that required continued liberalization of pricing policies and institutional restructuring. The agricultural sector, which contributed more than one third of GDP, had been adversely affected by several factors, such as weather conditions, pricing policies, and a shortage of inputs. It was a matter of urgency to activate that sector if the economic recovery were to take place. He encouraged the authorities to continue their efforts to establish realistic producer prices and to allocate sufficient foreign exchange to buy necessary inputs. He recognized the shortage in foreign exchange facing the economy, but it was necessary that such an important sector be given the highest priority, and he welcomed the information in Mr. Abdallah's statement and staff report that the authorities were moving on that front.

Rehabilitating the state enterprises, particularly in the agricultural and industrial sectors, would contribute greatly to efforts to improve the fiscal position, Mr. Suraisry observed. Better management and organization would enhance the viability of those enterprises and benefit both the revenue and expenditure sides of the budget; in particular, an increase in profitability would reduce the need for budgetary allocations. He agreed with the authorities that the rehabilitation of the industrial enterprises should emphasize, inter alia, the utilization of existing capacity rather than expansion.

To be effective, Mr. Suraisry continued, the authorities' efforts would have to be accompanied by firm demand management policies. The authorities had taken commendable revenue-raising measures, but their impact had been more than offset by the growth rate in total expenditures and the devaluation. The overall fiscal deficit, as budgeted in 1984/85, would be more than 15 percent of GDP, which was high by any standard and complicated the management of the economy. Therefore, an effort should be made to reduce the overall public sector deficit as well as the heavy reliance on domestic bank financing. That effort was particularly important at a time when new responsibilities were being placed on the private sector under the rehabilitation programs.

The balance of payments position was critical, Mr. Suraisry said. The continued decline in exports and imports in the past few years, the accumulation of external arrears, and the large debt service ratio, which was projected to be about 75 percent of exports of goods and nonfactor services, were all cause for great concern. The flexible exchange rate policy should be maintained and supported by appropriate domestic policies. Such a combination of policies would help Tanzania to attract the external assistance that it needed. Finally, he supported the proposed decision.

Mr. Polak commented that, for the first time in some years, the Tanzanian authorities had concluded that the diagnosis of the staff and the Executive Board was correct, and they had introduced a significant reorientation of policy under the current budget. He thanked the Tanzanian senior officials for their efforts to explain the authorities' measures to individual Directors. The news that the deterioration in Tanzania's situation had stopped was welcome. GDP was slightly higher, mainly on account of services, as the production of goods was still down. Although export value was also slightly higher because of an increase in uncontrolled prices, export volume was again down.

Nevertheless, while the situation had not worsened, it remained both unsatisfactory and increasingly untenable, Mr. Polak remarked. Production of export crops was far below the levels attained some years previously, and industrial production continued below capacity owing to the lack of necessary inputs. Although the statistics were unsatisfactory, subsistence production might have increased, as pricing policy had been a disincentive to production for export or for the market.

A large overall deficit in the balance of payments was expected for the year, Mr. Polak commented. Imports were too low, because of several factors, including the disenchantment of aid donors with the country's performance. Debt service obligations had bunched, having tripled in one year, and arrears continued to rise and at present exceeded one year's exports. In addition, inflation was rising and had reached 35 percent according to an index that clearly had a downward bias. In those circumstances, more was needed than a realization that past policies had been on the wrong track and a partial reorientation of policy.

He commended the strong measures that had been taken in certain areas, Mr. Polak said. For example, with respect to food crops and maize in particular, subsidies for agricultural inputs had been eliminated. However, the 5 percent increase in real producer prices was inadequate, and although the Tanzanian authorities had set a target of 30-35 percent they had decided to defer further action. The currency had been devalued substantially by 36 percent--but that was at best equivalent to one year's rate of inflation. There had been high inflation, however, for many years, and the real effective exchange rate was still about 60 percent over the rate in December 1978.

Interest rates remained negative in real terms, Mr. Polak continued. It was remarkable that in an economy operating so far below capacity, and disorganized by price controls, rationing, and restrictions on internal and external trade, government revenue as a percent of GDP remained reasonably high in African terms. It seemed likely, however, that in the circumstances of Tanzania, such a high ratio of revenue to GDP was an additional distorting factor. Expenditure had increased sharply for a number of reasons, including the cost of the Ugandan conflict and the drain on the budget of parastatal deficits. Large deficits had been financed by bank credit, thus producing a credit expansion that had led to inflation and fed the balance of payments deficit; insofar as credit expansion was restrained, private sector demand for credit had been starved. Moreover, the measures taken by the Government to improve the various marketing agencies had not been sufficient to reduce their losses.

Against that background, he fully endorsed the staff appraisal, Mr. Polak said, and he hoped that the Tanzanian authorities would assess the validity of the summing up of the present discussion.

The comments in the staff paper on Fund-Bank collaboration were interesting from a number of points of view, Mr. Polak stated. The IDA credit granted in October 1984 to strengthen the agricultural sector was clearly a case where cross-conditionality had correctly not been applied. The section on relations with the World Bank Group not only described Tanzania's relations with the Bank and IDA, but also contained an economic assessment by the Bank staff. He welcomed that rare opportunity to discern how the Bank considered major policy issues of common concern in a member country under discussion. The assessment contained many of the same facts as the Fund report, although it placed much less emphasis on the need for additional measures. He invited the staff to comment on that point.

Mr. Joyce remarked that the staff had provided a fair assessment of Tanzania's economic performance. He shared the staff's analysis of the causes of the serious economic malaise in Tanzania, and he strongly supported their recommendations. Clearly, Tanzania's unsatisfactory economic performance had been exacerbated by adverse external developments, both economic and political, along its borders. Even if the optimum package of economic policies had been put in place, it would have required careful and continuous management. Instead, inappropriate domestic economic policies over an extended period had prevented adjustment to the changing external environment and had even contributed to the weakening of the economy.

He did not want to dwell on the difficulties or failures of the past, Mr. Joyce commented. Instead, he would comment on the course and, more important, on the speed and degree of present and future adjustment measures to restore economic growth in the Tanzanian economy and to rebuild the balance of payments. He was encouraged that the authorities had recognized that some domestic policies had contributed to the economy's poor performance, that they intended to change those policies, and that they had already taken a number of concrete steps in that direction. The recent devaluation of the shilling, the upward adjustment of producer prices, the elimination of all existing subsidies on inputs, and the fiscal restraint measures were all necessary to prevent further deterioration. However, while those steps went in the right direction, they were not yet sufficient to bring about a turnaround in economic performance. More comprehensive and stronger measures were needed and must be introduced without further delay.

The staff had argued persuasively that further devaluation was needed, and he believed that exchange rate policy was probably the single most critical area for adjustment, Mr. Joyce said. Even using the Tanzanian authorities' own criteria for the exchange rate--that it would allow for real increases in agricultural producer prices and for the elimination of overdraft by agricultural parastatals--the present rate was inadequate. Producer incentives were not yet sufficient, nor would financial losses of the crop authorities be eliminated. He therefore joined the staff in encouraging a more sizable depreciation of the exchange rate and thereafter the maintenance of a flexible exchange rate policy. The exchange system should also be reformed to ensure that foreign exchange was more readily available to enterprises that could use it profitably.

The increases in agricultural producer prices announced in July 1984 were encouraging, Mr. Joyce commented, but he remained concerned about the speed and adequacy of the adjustments contemplated. Although producer prices were to be raised by 30-35 percent, the authorities had given no timetable for those changes. It was clear that the agricultural sector would only begin to realize its potential when incentives were sufficient and when the necessary inputs were available. He joined the staff in recommending accelerated price adjustment--including producer prices--in conjunction with exchange rate adjustment, so as to achieve neutrality in the rate of return to the food and export crop sectors. The authorities should ensure that adequate inputs were made available to the agricultural sector, which was the priority sector in the reconstruction of the Tanzanian economy. Moreover, considering the extremely tight balance of payments position, export crops should be given no less emphasis than import substitution.

On demand management, Mr. Joyce continued, the Government's basic fiscal goals of cutting unnecessary expenditures, consolidating basic services, and making increased resources available to the productive sectors were appropriate. However, the budgeted increase in the overall fiscal deficit for 1984/85 was not a positive development. If a prudent monetary and credit policy that did not exacerbate inflationary pressures were to be followed, the large share of available credit committed to financing the fiscal deficit must be brought down. Otherwise, credit expansion in the private sector would be constrained, leaving little, if any, room for slippage in achieving the reduction of the fiscal deficit.

The balance of payments situation was extremely serious, with no sign of reversal, Mr. Joyce remarked. Indeed, the situation had worsened during the past year: exports had fallen, reserves had declined sharply, and arrears had increased to the point where they currently exceeded the equivalent of one year's exports. The Tanzanian authorities seemed to have placed a great deal of weight on accruing new concessional aid from the international community to finance the balance of payments gap. He suspected that that faith in continued and expanded external financing might not be warranted. Certainly, existing donors were not likely to be impressed by the buildup in external arrears, nor to be convinced that the adjustment measures carried out thus far were sufficient. In that context, he would appreciate staff confirmation that Tanzania's arrears to the Fund had been eliminated.

With regard to Fund-Bank cooperation, Mr. Joyce said that the Bank had not included Tanzania among the designated countries in its proposed initiative for sub-Saharan Africa, because the Bank staff believed that the measures taken to date were insufficient to provide the necessary environment for the Bank programs being considered for that region. It was not a question of cross-conditionality, nor of identification of Bank-Fund interests, but of the importance of the Tanzanian authorities' commitment to more rapid and extensive adjustment measures. Immediate changes in the exchange rate and prices were needed, and a timetable for further measures would help to convince the Fund of the seriousness of the authorities' commitment to adjustment. In sum, the Tanzanian authorities were to be commended for the steps that they had taken and for their more realistic attitude toward future prospects, but in the present circumstances, it was imperative that they commit themselves to a faster pace of adjustment. He supported the proposed decision.

Ms. Bush commented that the report on the 1984 Article IV consultation with Tanzania clearly defined the extreme economic deterioration that had continued since the previous discussion and placed the responsibility for those developments on the long-standing inappropriate economic policies of the Government. The authorities appeared to be aware of the need to reorient their economic policies, as indicated by the measures included in the 1984/85 budget, which had been implemented the past summer. However, given Tanzania's large financial imbalances and the widespread distortions in the economy, she agreed with the staff that a broadly based policy rather than a piecemeal approach was needed.

Quick action was feasible and could have an immediate impact in certain areas, Ms. Bush continued. Recovery in the productive sector, notably agriculture, should receive high priority. Although drought had affected agricultural output, the lack of adequate producer incentives had been by far the more important factor. The authorities had taken some modest steps in that area, including the 5 percent real price increase for food crops, which represented the net effect of reductions in subsidies on inputs and increases in official prices. Production of viable import-competing food crops was important to eventually reduce imports, but price increases were also needed in the export sector. She invited the staff to comment on the relative benefit for the balance of payments of increased production of import-competing versus export crops. From a longer-term perspective, the export sector could generate increased economic growth and employment, in addition to the direct impact on the balance of payments. Moreover, further increases in producer prices would bring more food output back into official channels, thus improving the foreign exchange situation and probably the budget as well.

The state marketing corporations were badly in need of reform and faster progress should be made in that area, Ms. Bush remarked. She especially welcomed continuing Fund-Bank collaboration in that sector. More consideration should be given to concrete measures to reduce the extent of state control over marketing and pricing and to increase the role of the private sector in marketing.

The industrial sector also had stagnated, Ms. Bush continued, in large part owing to the lack of spare parts caused by depletion of foreign exchange reserves. Given the need to rebuild the Tanzanian economy, the authorities should consider selling those state-run enterprises that might be more efficiently run under private management, or closing down those enterprises that were unlikely to become competitive, and concentrate instead on regenerating the agricultural sector.

The authorities were planning a higher budget deficit, Ms. Bush noted. She agreed with the staff that without available financing, expenditures could not grow. However, adequate outlays had to be provided to the productive sectors in order to reduce supply bottlenecks. For that reason, the authorities must look to other current expenditures, such as wages--although she realized the difficulty of wage action--and subsidies, to reduce the budget deficit. A greatly reduced deficit was needed in order to permit some increase in credit to the private sector, which had been allocated no new credit for several years. In addition, the high inflation rate and low interest rates were inhibiting savings. Tighter demand management would bring the inflation rate down, but in the interim, substantial increases in interest rates were needed.

The cumulative effect of several years of inappropriate economic policies was reflected in the balance of payments deficit, the total depletion of foreign reserves, and the accumulation of external arrears, Ms. Bush observed. Concessional financing was declining, which perhaps reflected not only tighter budgets in the donor countries, but also donor dissatisfaction with the lack of an adequate policy stance on the part of the authorities. Furthermore, the increased reliance on suppliers' credits, which were short term and nonconcessional, had resulted in the surge in the debt service burden, projected to be over 70 percent of exports of goods and services in 1984. Clearly that amount could not be repaid, and arrears would increase.

Additional substantial exchange rate action was needed immediately, Ms. Bush stated. Despite the June devaluation, the Tanzania shilling remained overvalued by at least 60 percent, compared with the 1979 rate. Exchange rate action would have multiple effects, including the reduction of the incentive to smuggling, thus bringing more trade back into official channels, encouraging increased production of import-competing food crops and export crops, and decreasing the fiscal deficit by reducing the need for subsidies while increasing the tax base. If that action were supported by restrained fiscal and monetary policies, the inflationary impact feared by the authorities could be minimized. Furthermore, the supply effects could also blunt price pressures.

Her chair's somewhat critical assessment of Tanzania's situation was intended merely to indicate the urgent need for policy revision, Ms. Bush concluded. While donor's financial support had played an important role in Tanzania, it could not continue to substitute for badly needed adjustment. She therefore urged the authorities to come to grips with their economic situation in a speedy and forceful manner.

Mr. Ismael said that he was disheartened to note that the economic situation in Tanzania had continued to deteriorate. Production had continued to decline, the pace of price inflation had picked up, and the external situation had also deteriorated, giving rise to substantial external arrears. In the present circumstances, remedial measures were urgently needed. He therefore welcomed the tough policy decisions taken by the authorities in the context of the 1984/85 budget, which aimed at promoting the agricultural and manufacturing sectors, reducing dependence of parastatals and local governments on the central government budget, and introducing a more realistic exchange rate for the Tanzania shilling.

Nevertheless, Mr. Ismael continued, some areas deserved urgent consideration. First, recent fiscal measures had had little effect in cutting the large budget deficit. Much more could be done to reduce expenditure further in the 1984/85 budget. Second, he noted with apprehension the increasing borrowing trend, especially the recourse to sizable foreign suppliers' credits for supplementary financing, which had resulted in a high debt service ratio of about 60 percent in 1984. Such borrowing would not be sustainable in the medium term and should be reduced through strict annual borrowing limits and the selection of projects eligible for such financing. Any projects not on the priority list should be blocked. Third, pricing policies should be adjusted further with a view to introducing a more realistic structure that provided sufficient incentives to production, particularly in the agricultural sector. Giving that sector priority would afford the maximum results for reducing both external and domestic imbalances. Perhaps consideration could be given to a greater diversity of crops and to improving the country's ability to withstand future external pressures. In addition, effective reform of the parastatals was long overdue. He therefore supported the actions taken to improve the efficiency of the major export crop authorities.

Fourth, along with the intended improvement of fiscal performance and reduced reliance of the Government on bank financing, Mr. Ismael said, he endorsed the proposal that the overall interest rate policy should be reviewed. Productive activities would not receive adequate credit when market interest rates were substantially negative in real terms. The authorities might decide on a realistic timetable to implement that reform.

Fifth, Mr. Ismael said that he welcomed the authorities' willingness to continue to pursue a flexible exchange rate policy aimed at further adjustments in the real exchange rate to keep Tanzania internationally competitive, in light of the domestic rate of inflation and balance of payments developments. Finally, he supported the proposed decision.

Mr. Salehkhou commented that, since the 1983 Article IV consultation (EBM/83/101, 7/11/83), the Tanzanian economy had continued the downward trend of past years, characterized by a high rate of inflation, a large budget deficit, heavier resort to bank financing, and a general decline in exports owing mainly to the poor performance of the agricultural sector--largely due to the adverse weather conditions prevailing in most African countries. As a consequence of lower exports and rising debt service, the balance of payments had weakened further, with the accumulation of substantial external arrears, forcing the Government to cut the level of essential imports and causing acute shortages of necessary goods and bottlenecks in production. Thus, the contribution of the agricultural sector--Tanzania's main foreign exchange earner--had declined in terms of GDP from 39 percent in 1979 to 34 percent in 1983. The manufacturing sector had not fared any better, and its contribution to GDP during the same period had fallen from 11 percent to 6 percent. Only the services sector had grown in relative importance, from 50 percent of GDP to 60 percent in 1983, mainly because of Tanzania's dues and levies on harbors and transit ways for neighboring countries.

The 1983/84 budget called for economic recovery and external adjustment through a strengthening of the agricultural sector, Mr. Salehkhou remarked. Measures included a 36 percent adjustment in the exchange rate, substantial producer price adjustments in July 1984, and the reduction of the fiscal deficit through new tax reforms and better collection. Simultaneously, the state agricultural export companies were being reorganized by entrusting the marketing and distribution of food products to cooperatives and by giving more incentives to the private sector. In addition, the National Milling Corporation's transactions in maize would be put on a profitable basis through the removal of subsidies.

Despite the strong measures introduced in the 1983/84 budget, Mr. Salehkhou continued, the Government's overall deficit, though lower than in previous years, was expected to equal 34 percent of total expenditures and net lending in 1984. The reduction in the deficit had been achieved through an increase of 21 percent in revenues and the maintenance of expenditures at the projected budget level. Since foreign lending had been limited, Tanzania had had to maintain the same level of bank borrowing. In turn, that had placed a burden on the banking system and had contributed to already high inflationary pressures.

Among the causes underlying the internal and external imbalances, there were three major factors outside Tanzania's control, Mr. Salehkhou remarked. First, the economy was based mainly on the agricultural sector, which employed 80 percent of the population and contributed over 75 percent of the country's foreign exchange earnings. That sector could not be expected to perform positively in the face of adverse weather conditions, which had persisted since 1980. Second, Tanzania's terms of trade had worsened as a result of the continued increase in the price of imports along with a decline in the price of export commodities. Third, the foreign resources essential to balance the overall financial requirements of the Tanzanian economy had been reduced. The recent meeting of the

OECD member governments to study ways and means of covering long-term aid to sub-Saharan Africa and fighting famine on the African continent was significant, but he reminded colleagues that some western nations were falling short of the UN target for official development assistance. As Tanzania's oil bill and debt service equaled its total foreign exchange receipts, it was not surprising that the Government faced acute difficulties in allocating its foreign earnings toward priority sectors in conformity with the Fund's recommendations. The exchange retention scheme benefited export-oriented industries through the procurement of spare parts and other inputs, but in the face of a declining agricultural sector, the primary responsibility of the Tanzanian Government should be to meet the food requirements of the population by importing what the local economy could not provide pending the arrival of better weather.

Acknowledging the importance of the recommendations of the 1983 Article IV consultation with the Fund, the Tanzanian authorities had designed their 1984/85 budget bearing in mind the continued deterioration in economic conditions and their belief in self-help, Mr. Salehkhou observed. The authorities had set out to increase taxes, reduce expenditures, abolish subsidies, and reorganize the public enterprises through dissolution, amalgamation, and replacement with cooperative unions; and they had undertaken to service a large share of the parastatals' outstanding debt to the banking system. That policy aimed at containing the overall budget deficit at 12 percent of GDP. The authorities' efforts were in the right direction, although the size of the deficit remained a source of concern, and large amounts of foreign grants and loans were still needed to finance the deficit if excessive resort to bank financing was to be avoided.

The clear reorientation of the Tanzanian economic and monetary policies reflected in the 1984/85 budget program, which stressed the allocation of foreign exchange to the agricultural sector while stimulating production through producer price incentives, should encourage the Fund to give greater assistance to Tanzania, Mr. Salehkhou stated. That assistance should include not only a Fund-supported structural adjustment program but also compensatory financing for the excess cost of cereal imports during the present difficult period of shortages of goods.

The flexibility and effectiveness of monetary tools should be considered in a broad setting of relatively demonetized economic sectors and a small private sector, Mr. Salehkhou continued. In an economy where public sector enterprises were responsible for about two thirds of the tax revenue on company incomes and where private credit accounted for a small fraction of total credit, the crowding out of the private sector took on secondary importance.

Strenuous efforts had been made to reduce the current account deficit by compressing imports, as exports had lagged in terms of volume and price, Mr. Salehkhou commented. Nevertheless, fuel and food had to be imported, and in the light of limited medium-term suppliers' credits, the deficit's burden on the balance of payments could only become more acute, forcing Tanzania to draw down its already meager reserves. The staff had correctly underlined the crucial importance of inflows of concessional resources to the success of Tanzania's economic recovery. In particular, the staff had endorsed the authorities' preference for balance of payments support as opposed to tied project aid. The authorities had contended that greater concessional inflows would make tighter adjustment more socially and politically acceptable; and experience had shown that Fund approval of a country's efforts could stimulate the flow of concessional resources. The staff did not seem to be content with the degree of adjustment undertaken thus far, despite the great weight of external forces hampering the authorities' efforts. The past meeting of the Organization of African Unity had signaled the dire economic consequences of the drought that had hit Africa for the past decade, the worsening of the terms of trade, and the collapse of some commodity markets. While African nations were conscious of their debt obligations and wished only for improvement in their mainly single-product export economies so as to reduce their debt, they also looked to the Fund and the Bank, as well as donor countries, for a more comprehensive approach to their problems. Finally, he supported the proposed decision.

Mr. Alhaimus said that he shared the concern of other speakers with the deteriorating trend that had been visible in the Tanzanian economy in the past few years. Unfortunately, since the previous consultation discussion, most economic indicators had not only shown no sign of a turn-around but had in some cases worsened. Real GDP had continued to decline; agricultural production remained low; inflation had accelerated with real interest rates remaining negative; fiscal deficits had continued to be large with extensive recourse to bank financing; and the debt service burden remained high. In view of that extremely difficult situation, it was encouraging that the authorities had already instituted a program of policy reorientation in the context of the 1984/85 budget. Mr. Abdallah's statement also indicated that the authorities would continue their restructuring efforts beyond the current fiscal year.

In light of the recent decline in the real sector of the economy--mainly agriculture--the authorities had appropriately laid considerable emphasis in their recently announced policy package on the revitalization of the agricultural sector and on the improvement of parastatal efficiency, Mr. Alhaimus commented. Producer prices had already been increased substantially toward the goal of a 30-35 percent increase in real terms over the medium term. A gradual move toward a flexible pricing policy, with a reduction in the number of commodities subject to official control and price increases that reflected increasing costs, was also being made.

With regard to public enterprises, Mr. Alhaimus noted Mr. Abdallah's statement that most of the recommendations of the Presidential Commission on Cost Reduction in Public Enterprises had been accepted. Those measures would need to be backed by improved management and increased emphasis on revenues and agricultural production. As a result of those measures, growth in bank financing for budgetary purposes might slow down in the current fiscal year. Nevertheless, it was unlikely that the credit needs of the private sector would be adequately met.

Tanzania's external position remained weak, and the balance of payments was expected to register sizable deficits, even with a reinforced adjustment policy, Mr. Alhaimus commented. The debt service burden would remain high, and arrears were accumulating. The severe shortage of foreign exchange had caused a sharp suppression of imports--even those vital to domestic activity. Under those circumstances, additional measures for revitalizing the export sector, such as the accelerated increase of producer prices of export crops relative to food crops, could be considered. Both the staff and the authorities were in agreement on the areas that the policy should address. The twin objectives of economic recovery and external adjustment could be achieved most efficiently by reversing the past decline in agricultural production through pricing policy. To place recent policy efforts in the context of a more comprehensive adjustment program, the authorities were considering, as Mr. Abdallah had stated, the possibility of a Fund-supported program. As the Tanzanian authorities had shown determination in taking courageous decisions, the Fund should show its awareness of the difficulties facing that country.

Mr. Wang said that he agreed with most of the comments made by previous speakers. Tanzania was making tremendous adjustment efforts with emphasis primarily on the rehabilitation of the productive sectors, the continuation of budgetary restraint, and institutional reform. The policies and measures introduced in the 1984/85 budget represented an important step in the right direction. The determination of the authorities to move toward self-sufficiency in food production was also commendable. Mr. Abdallah had stated that there were still differences of opinion between the staff and the authorities with regard to the degree of emphasis on specific areas, but they would not hamper further understanding and cooperation between the Fund and Tanzania to bring about comprehensive economic rehabilitation while maintaining social and political stability.

The Tanzanian authorities' success would depend crucially on effective domestic adjustment policies, Mr. Wang remarked. But appropriate external assistance, especially more concessional balance of payments support, was equally important. Therefore, it was hoped that the Fund would continue extensive and constructive discussions with the Tanzanian authorities to pave the way for Tanzania to make further use of Fund resources at an early date. In conclusion, he supported the proposed decision.

Mr. Vasudevan said that Tanzania was in a critical economic position, but the authorities were making efforts to reorient policies so as to carry the economy onto a growth path. Adverse weather conditions had affected the growth rate in the recent past. In addition, low foreign exchange reserves had led to sharp cuts in imports of crucial raw materials and goods and thereby to reductions in real output in 1981-83. In 1984, although real output was likely to improve, real income would be lower than in 1980, with extremely serious consequences for per capita income.

The decline in the volume of exports was partly due to the lack of recovery in the European economies, which absorbed almost 47 percent of Tanzanian exports, Mr. Vasudevan continued. Imports had had to be compressed because of the lack of sufficient foreign exchange receipts. The terms of trade had declined, with the index falling from 100.0 in 1980 to 85.4 in 1983 and to about 90 in 1984. With large trade imbalances and mounting interest payments, current account deficits, as a percent of GDP, had reached 13.7 in 1980 and 8.2 in 1983. Net official capital flows had declined sharply in 1983 and were nominal in 1984. An overall imbalance, therefore, was likely to develop compared with virtual balance in 1983. The report on recent economic developments indicated that the projected overall balance of payments deficit for 1984 could have been eliminated to a large extent had net government capital inflows and other forms of external aid reached the levels obtained two years previously. The staff argued that, apart from strong adjustment efforts and exceptional aid inflows, a more sizable depreciation of the exchange rate than the 36 percent devaluation of June 14, 1984 was needed. He did not consider that suggestion useful, since the success of a large depreciation would depend not only on other adjustment efforts but also on exceptional aid inflows, over which Tanzania had no control. In addition, it was not clear how, in practice, a large-scale depreciation would help to make Tanzanian exports competitive, as most were agricultural and marketed to a significant extent in Europe; moreover, coffee exports were subject to quotas. The suggestion appeared to be based on theory; he invited the staff to comment on an empirical basis.

The staff had advanced the familiar argument that interest rates were negative in view of the high inflation rate and should therefore be raised "so as to encourage financial savings and improve resource allocation," Mr. Vasudevan remarked. The authorities had also foreseen the need to adjust domestic interest rates, but Mr. Abdallah had raised doubts on that issue. In most developing countries, large savings were generated not from the public sector or the private corporate sector, but from the household sector, and he was unsure whether household propensities to consume were dictated by real interest rates; savings in most developing countries with low per capita incomes were income-elastic rather than interest-elastic. In addition, when inflation rates were high in countries where financial markets were not highly developed, there would be a tendency to stockpile commodities in order to make a large profit in the commodity markets. Data on gross capital formation, however, indicated that stocks had in fact declined during the past two years. Clearly, negative growth in output and falling incomes had prevented savings generation. He had not seen any information on savings in Tanzania in the staff reports, and he invited the staff to comment. Like Mr. de Groote, he believed that it would be better to reduce the rate of inflation rather than to build up nominal interest rates to make them positive in real terms.

He commended the authorities on their recent efforts to raise the producer prices of many crops and to revamp the public sector, Mr. Vasudevan commented. The stance of fiscal policy was cautious, and the authorities should take steps to raise revenues and to restrain expenditures. The growth rate of money supply was lower than the rate of inflation in the past two years and was not likely to be unduly expansionary in 1984/85. It was not clear what the staff meant by its statement: "In the period ahead...the goal of economic recovery would be best served by ensuring that productive activities are allocated adequate credit and by holding the overall expansion of credit within prudent limits to avoid excess demand pressures." Was that a call for a careful allocation of credit, or for more adequate bank credit for productive activities in the private sector? If the staff had the latter argument in mind, there were implications for unorganized money markets, for the scale of financing by bodies other than banks, and for the pricing of units that did not get enough credit from banks. If, on the other hand, the staff view was that credit should be allocated according to activities, and that credit should be denied to activities designated as unproductive, then it would be possible to have a well-articulated, consistent plan, alongside a set of guidelines for trade and exchange policies and for institutional reform. Finally, he supported the proposed decision.

Mr. de Groote said that although the Board favored the reduction of inflation as a way to increase real interest rates, he envisaged a different choice: allowing interest rates to increase to the point where they became equal to the rate of inflation, even if that did not mean positive rates of interest. Unlike the staff, he believed that the burden of the Government was so heavy that it would not be possible to achieve effective positive interest rates immediately, simply through a reduction in inflation.

Mr. Vasudevan explained that he had not wished to infer that interest rates in Tanzania were adequate. Interest rates should move up, but there was an even greater need to bring the inflation rate down, although he could not specify the optimal rates that would lead to convergence.

Mr. Tvedt commented that the unfavorable combination of external shocks and lax domestic internal policies had brought Tanzania into the present difficult economic situation. Therefore, he was pleased that the Tanzanian authorities had recognized the need for substantial changes in their economic policies and, accordingly, had taken measures in connection with the budget for 1984/85. The statistical basis for assessing the effect of the measures was weak, and it might be difficult to determine the extent of the need for additional measures. However, on the basis of available information, he agreed with the staff's overall assessment of the economic situation in Tanzania, and he believed that further changes in economic policy were necessary.

The fiscal deficit was still large, Mr. Tvedt remarked, and an improvement would depend on the implementation of difficult institutional changes. The real effective exchange rate had appreciated substantially in the past few years, and a moderate depreciation had been implemented only recently. Further exchange rate action was called for, particularly in order to increase agricultural producer prices. Higher producer prices were necessary, but were not sufficient to ensure increased production in agriculture; they had to be combined with other measures to provide inputs and facilitate processing and transportation of crops. Furthermore, any changes in the exchange rate would have to be combined with demand restraint.

To attain a much-needed improvement in the economic situation, substantial funds should be obtained from external sources to help reduce supply shortages and production bottlenecks, Mr. Tvedt stated. A Fund-supported program would play an essential catalytic role in that connection. In conclusion, he could endorse the proposed decision.

The Deputy Director of the African Department said that there had been not only a perceived reorientation of policies in Tanzania, but also a real reorientation of the authorities' stance vis-à-vis the Fund. In the past, no discussions between Article IV consultations had taken place, whereas, in the previous six months, there had been four formal discussions by the Tanzanian representatives and the Fund staff on a possible program and its various elements, reflecting the authorities' determination to work out an adjustment package that was acceptable to the community.

He recalled that Mr. Vasudevan had commented that the reduction in Tanzanian exports had been attributable mainly to the lack of European economic growth, with the implication that growth in those economies would have resulted in increased Tanzanian exports, the Deputy Director remarked. However, there had been a considerable reduction in supply-side availabilities in Tanzania, and export crop production in 1983/84 had declined to one half to two thirds of peak production. Normally a lack of demand would be reflected in increased stocks. But as there was no evidence that the Tanzanian economy had been forced to accumulate large stocks, the staff assumed that the reduction in exports was related to domestic policies that had failed to stimulate production to reach previous levels.

It had also been said that the projected balance of payments deficit for 1984 of about $193 million would have been easily financeable if net government capital inflows had remained at previous levels, the Deputy Director continued. That statement implied that the balance of payments deficit was attributable not to policy failure, but to the reduction of capital inflows. Although net capital inflow statistics might justify that observation, the gross figures for inflows of foreign capital for 1984 were not significantly different from those of two years previously--about $180 million--and corroborated the staff's view that, notwithstanding past concessional inflows, debt service was increasing, implying that net inflows would be small.

With regard to using the exchange rate to resolve balance of payments difficulties, the Deputy Director remarked that in Tanzania, the staff had discussed the exchange rate on a microeconomic level with the authorities, who had two objectives: to provide adequate real increases in agricultural producer prices, and to ensure that the crop parastatals were able to eliminate their deficits. Those goals would generate a need for exchange rate action, but, more important, the staff was convinced that they would also have a beneficial effect on the balance of payments through increased producer prices and a greater supply of incentive goods, resulting in increased production. The staff also believed that greater benefit would accrue to the balance of payments through the rechanneling of exports from the unofficial market to the official markets. The exchange rate was therefore important and should be restored to a level that eliminated the existing 60 percent appreciation.

On making interest rates positive, the staff had envisaged the sort of two-pronged approach mentioned by Mr. de Groote, the Deputy Director said. The authorities could set a timetable for trying to bring down the rate of inflation through monetary and fiscal policies while raising interest rates to a positive level; of course, to the extent that the inflation rate was lowered substantially, the increase in interest rates could be correspondingly that much lower.

The staff agreed with the Tanzanian authorities that the present structure of taxation made it difficult to raise revenues in a short period, the Deputy Director continued. Nevertheless, the staff believed that the substantial number of specific duties within the Tanzanian system was inappropriate. With a high inflation rate, a move away from specified duties would increase revenue elasticity and could produce significant increases in revenue. There was not much room for a reduction in nominal current expenditures; however, as long as the rate of increase in spending was not sufficient to compensate for the rate of inflation, the real impact of those expenditures in relation to GDP might begin to decline.

The purpose of the current exchange of views between the staff and the Tanzanian authorities was to determine medium-term prospects, which would be taken up in the next staff report prepared for Board consideration, the Deputy Director commented. First, the staff must confirm the accuracy of the basic facts and reach agreement with the authorities on the policies that would form the basis for the medium-term forecasting exercise.

The Bank appraisal differed somewhat from the Fund's because it had been written in a preliminary manner following a brief mission immediately after the budget measures had been announced, the Deputy Director explained. The Bank staff had not had an opportunity since then to review the situation more comprehensively. However, discussions between the staffs of the Fund and Bank and the Tanzanian authorities had continued, and he assured the Board that the Bank staff shared the views in the staff appraisal under consideration. He agreed with Mr. Joyce's comment on the Bank's perception of Tanzania's eligibility for the new Bank facility.

Given the lack of goods in Tanzania, the staff was not suggesting that preference be given to import-competing versus export crops, the Deputy Director remarked. Whatever was produced would merely meet some of the needs of the country that had not been satisfied because of the lack of foreign exchange to purchase imports, except food products. The question could arise whether greater incentives would be warranted for producing maize or for producing certain export products; the staff believed that foreign exchange returns from both activities were about equal. Therefore, producer prices would have to be increased faster to encourage production for export, the incentive being relatively low.

In sum, the Deputy Director of the African Department concluded, there was probably greater basic understanding between the Tanzanian representatives and the Fund staff than before, not only about diagnoses, but also about the direction in which further moves should be made. That perception was shared by the Bank staff as well.

Mr. Vasudevan explained that he had not meant that Europe did not have the absorptive capacity, but rather that Tanzania's exports had not been fully absorbed.

The Deputy Director of the the African Department replied that there might have been isolated instances of production that could have been sold, but on the whole, the data showed that most export products had been declining in terms of volume alone.

Mr. Abdallah remarked that the dialogue between the Fund staff and the Tanzanian authorities was the most significant development of the past six months. There was a real flow of data as well, but there were still possibilities for misunderstanding, and the discussions must be handled with care and flexibility.

The staff had commented on the preference given by the Tanzanian authorities, in the latest announced structure of producer prices, for food crops rather than export crops, Mr. Abdallah said. He supported the Tanzanian authorities in their deference to food crops because of the country's experience with drought. Several years ago they had discovered that they had a large volume of export crops to sell but were importing food because the pricing structure at that time had favored export crops. Learning from that experience, the authorities were preparing for recurrent droughts by stocking a larger inventory of food than of cotton and coffee for export.

The parastatals would be reformed, and a number would be abolished, Mr. Abdallah remarked. There was some support for the sale of parastatals to the private sector, but the formation of cooperative unions was preferred in some quarters. Whatever mechanism was established, it should not become a burden on the budget. The primary responsibility of the Government was to ensure that the credit needs of those institutions were handled in a way similar to those of the private sector.

After discussions with the World Bank staff, he believed that it was more favorably inclined than the Fund staff in its judgment of the Tanzanian economy, Mr. Abdallah commented. The Bank staff was slightly more optimistic and was planning to finance a number of projects in Tanzania. On Mr. Joyce's comments about the facility for sub-Saharan Africa, he did not attribute the Bank's assessment purely to Tanzania's performance.

With regard to pricing, the Tanzanian authorities had not said that they would raise real prices of crops and agricultural products by 30-35 percent, Mr. Abdallah explained. They had committed themselves to an increase in real prices of 5 percent a year, or a cumulative figure of 30-35 percent over a period of years.

The Tanzanian authorities' commitment to adjustment, including exchange rate adjustment, was firm, Mr. Abdallah commented. The continuing negotiations would determine the extent of adjustment required, and, in a spirit of compromise, a satisfactory solution would be found. A Fund-supported program would be in the interest of the international community so that the authorities could also begin to obtain the necessary resources from donor countries.

The Chairman made the following summing up:

> Executive Directors generally agreed with the thrust of the staff appraisal contained in the report for the Article IV consultation with Tanzania, and expressed deep concern about the continued and severe deterioration in Tanzania's economic situation over the past several years. Along with declining trends in production and agricultural exports, domestic inflation had risen to high levels and large deficits were recorded in the external current account. Consequently, the external debt service burden increased to unmanageable proportions, international reserves were almost depleted, and external payments arrears had accumulated to the equivalent of more than one year's export receipts. Directors observed that while exogenous factors, including adverse weather conditions and deteriorated terms of trade, had contributed to this outcome, inadequate domestic policies, most notably an overvalued exchange rate, inappropriate price relationships, and expansionary financial policies, were also in large part responsible for the disappointing economic trends.
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> Directors welcomed the authorities' declared intention to seek to reverse those unfavorable developments and the recent reorientation of economic policies in the context of the 1984/85 budget. The recent depreciation of the exchange rate and the accompanying price adjustments for export crops and maize were steps in the right direction, as these measures helped to improve agricultural production incentives and to contain the imbalances in the public sector.
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> Directors, however, stressed that given the severity of the economic difficulties facing Tanzania, the recent policy changes do not go far enough to achieve significant external adjustment

and economic recovery on a sustainable basis. In fact, on account of a large increase in wages, the measures so far taken were expected, at best, to prevent a further widening of the very high 1984/85 deficit in the public sector, whose bank financing need would, therefore, remain excessive. They also observed that the continuation of negative real interest rates, extensive price controls, and tight import and exchange restrictions do not provide a policy environment for improving resource allocation and a recovery of productive investment.

Directors welcomed the ongoing policy discussions between the Tanzanian authorities and the staff of the Fund and the World Bank. They hoped that as a result of these discussions, the authorities would promptly adopt a comprehensive financial program that could be supported by Fund resources. They emphasized a number of key elements that should be included in such a program. Significant and stepped up increases in real producer prices for agricultural products with a clear timetable to that effect and an appropriate balance of incentives as between exports and food crops, as well as a flexible policy involving further adjustments in the real exchange rate, were considered essential elements in order to strengthen agricultural production incentives, to eliminate the imbalances in the parastatal sector, and to contribute effectively to external adjustment. It was the general view of Directors that the rehabilitation of the agricultural and public enterprise sectors and the establishment of an appropriate exchange rate should be major priorities of the authorities.

Directors also felt that the prevailing import and exchange controls should be simplified and liberalized as quickly as possible to support the process of economic recovery. A major move to liberalize domestic price controls and marketing arrangements was recommended, and the authorities were urged to work out a definite timetable of intended cost-cutting measures to improve the financial position of enterprises and the budgetary revenue performance. The imbalances in both parastatal enterprises and central government operations would have to be reduced much further to ensure an adequately restrictive stance of fiscal and domestic credit policies.

In that context, the overall cash deficit of the Central Government, equivalent to more than 12 percent of GDP, was regarded as unsustainable. Public expenditure policies need to be re-examined to emphasize the rehabilitation of the key productive sectors and transport facilities, Directors stated. The authorities would also need to move decisively toward phasing out negative real interest rates so as to encourage financial savings and improve resource allocation without overburdening the budget. In view of the overwhelming share of the public sector in total credit allocation, the pursuit of appropriate interest rate policy added urgency to the strengthening of fiscal policy.

Directors emphasized the importance of formulating a realistic adjustment program, which was considered crucial to ensure that the foreign aid inflows needed in support of such a program could be mobilized. They encouraged the authorities to work in close cooperation with the Fund and the World Bank staff in formulating their adjustment policies. The collaboration developed between the staffs of the Fund and of the World Bank was encouraged.

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

The Executive Board then took the following decision:

1. The Fund takes this decision relating to Tanzania's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Tanzania, in the light of the 1984 Article IV consultation with Tanzania, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Tanzania maintains restrictions on payments and transfers for current international transactions and a multiple currency practice as described in SM/84/256. The Fund urges Tanzania to adopt a more rigorous set of adjustment policies that would permit the elimination of these retrictions.

Decision No. 7861-(84/179), adopted
December 7, 1984

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/178 (12/7/84) and EBM/84/179 (12/7/84).

2. MADAGASCAR - REVIEW UNDER STAND-BY ARRANGEMENT

1. Pursuant to paragraph 4(c)(iii) of the stand-by arrangement for Madagascar (EBS/83/255, Supplement 1, 12/22/83), as amended by paragraph 3(b) of Executive Board Decision No. 7650-(84/42), adopted March 19, 1984, Madagascar has conducted a review of the program with the Fund in order to reach understandings regarding budgetary policies and the import program for 1985. Madagascar and the Fund have reached understandings on indicative targets for end-March 1985 with respect to net domestic credit, credit to the Government, and external payments arrears.

2. The letter dated October 19, 1984 from the Minister at the Presidency of the Republic of Madagascar in Charge of Finance and Economy shall be attached to the stand-by arrangement for Madagascar and the letter dated November 21, 1983 attached thereto as modified and supplemented by the letter and memorandum of February 23, 1984, and the letters of June 8, 1984 and July 31, 1984 shall be read as further modified and supplemented by the letter of October 19, 1984.

3. The Fund finds that no additional understandings are necessary concerning budgetary policies and the import program for 1985, and that as a consequence Madagascar may proceed to make purchases under the stand-by arrangement. (EBS/84/240, 11/27/84)

Decision No. 7862-(84/179), adopted
December 7, 1984

3. TURKEY - STAND-BY ARRANGEMENT - MODIFICATION

1. Turkey has consulted with the Fund in accordance with paragraph 10 of the stand-by arrangement for Turkey (EBS/84/42, Supplement 4, 4/5/84) and paragraph 9 of the letter of the Minister of State and Deputy Prime Minister, dated September 4, 1984, attached to the stand-by arrangement, in order to reach understandings with the Fund regarding monetary and credit policies which Turkey will pursue during the remainder of 1984.

2. The letter of the Minister of State and Deputy Prime Minister dated November 16, 1984 shall be attached to the stand-by arrangement and the letters of March 12, March 18, and September 4, 1984 shall be read as modified by the letter of November 16, 1984.

3. In accordance with paragraph 3 of the letter from the Minister of State and Deputy Prime Minister dated November 16, 1984, the limit on net domestic assets of the Central Bank for the final calendar quarter of 1984 referred to in paragraph 3(a)(i) of Executive Board Decision No. 7822-(84/148), adopted October 10, 1984, shall be that indicated in paragraph 3 of the letter of November 16, 1984 and as specified in the table attached thereto. (EBS/84/237, 11/23/84)

Decision No. 7863-(84/179), adopted
December 7, 1984

4. YUGOSLAVIA - STAND-BY ARRANGEMENT - WAIVER OF PERFORMANCE CRITERION

1. Yugoslavia has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Yugoslavia (EBS/84/65, Supplement 1, 4/19/84) and paragraph 24 of the letter dated March 20, 1984 from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia attached thereto.

2. The letter dated November 22, 1984 from the Federal Secretary for Finance of Yugoslavia shall be attached to the stand-by arrangement for Yugoslavia, and the letter dated March 20, 1984 attached to the stand-by arrangement, as supplemented and modified by the letter of July 31, 1984, shall be read as further supplemented and modified by the letter of November 22, 1984.

3. The Fund finds that, in light of the letter dated November 22, 1984, no additional understandings are necessary concerning the nonobservance of the performance criterion relating to the intention regarding public sector revenue referred to in paragraph 4.b(4) of the stand-by arrangement, and that Yugoslavia may proceed to make purchases under the stand-by arrangement. (EBS/84/253, 12/4/84)

Decision No. 7864-(84/179), adopted
December 7, 1984

5. PEOPLE'S REPUBLIC OF MOZAMBIQUE - REPRESENTATIVE RATE FOR MOZAMBIQUE METICAL

The Fund finds after consultation with the authorities of Mozambique that, under Rule O-2(b)(i), the representative rate for the Mozambique metical against the U.S. dollar is the midpoint between buying and selling rates for the Mozambique metical. The Bank of Mozambique will promptly inform the Fund of any change in the representative rate. (EBD/84/307, 12/3/84)

Decision No. 7865-(84/179) G/S, adopted
December 7, 1984

APPROVED: September 9, 1985

LEO VAN HOUTVEN
Secretary