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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/180

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

J. de Larosière, Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| A. Alfidja | |
| C. H. Dallara | |
| J. de Groote | |
| B. de Maulde | |
| | T. Alhaimus |
| H. Fujino | T. Yamashita |
| | B. Goos |
| J. E. Ismael | |
| | L. Leonard |
| | C. Robalino |
| | A. Vasudevan, Temporary |
| | M. Camara, Temporary |
| | M. A. Weitz, Temporary |
| | E. M. Taha, Temporary |
| | G. Ortiz |
| | A. A. Scholten, Temporary |
| A. R. G. Prowse | |
| | A. A. Agah, Temporary |
| | A. K. Juusela, Temporary |
| | T. A. Clark |
| | N. Coumbis |
| | Wang E. |

L. Van Houtven, Secretary
S. L. Yeager, Assistant

Also Present

African Department: A. D. Ouattara, Director; J. P. Briffaux, I. A. H. Diogo, A. G. A. Faria, Y. Fassassi, M. G. Fiator, C. A. François, I. C. Lienert, E. Sacerdoti, L. Schmitz, M. Zavadjil. Exchange and Trade Relations Department: E. H. Brau, S. Kanesa-Thasan. Fiscal Affairs Department: E.-A. Conrad. Legal Department: Ph. Lachman. Bureau of Statistics: C. Briançon. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: H. A. Arias, H.-S. Lee, M. Z. M. Qureshi, T. Sirivedhin, A. Steinberg. Assistants to Executive Directors: W.-R. Bengs, L. E. J. M. Coene, J. de la Herrán, J. J. Dreizzen, G. Ercel, C. Flamant, G. D. Hodgson, H. Kobayashi, S. Kolb, M. Lundsager, R. Msadek, K. Murakami, A. Mustafa, J. K. Orleans-Lindsay, T. Ramtoolah, D. J. Robinson.

1. MALI - REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered a staff report for the midterm review under the stand-by arrangement for Mali (EBS/84/239, 11/27/84; and Cor. 1, 12/5/84).

The staff representative from the African Department stated that the Malian authorities had recently informed the staff that the 1985 budget had been approved by the Government on December 5; the deficit was unchanged from that established in the initial budget proposal presented in the staff report, but expenditures had been increased by CFAF 1 billion, matched by an equivalent upward revision of revenues. Also, data had been received indicating that the quantitative performance criteria for end-September had been met.

The decree regulating the Government's next agricultural program had been issued on November 21 and had established the increase in the producer price of rice paddy from CFAF 60 to CFAF 65, the staff representative continued. The decree also provided for the liberalization of rice paddy marketing in the area managed by the Mopti Rural Development Operation. The Government had decided that 50 percent of marketing operations would be carried out by the farmers rather than by the Office du Niger. The Council of Ministers had instructed that additional specific steps to liberalize markets in the areas managed by the Office du Niger and other rural development operations, together with the precise timetable for implementation, be prepared before the end of December 1984.

The staff had been informed that, contrary to expectation, the decree on the liquidation of Air Mali had not yet been issued because of the unexpected travel abroad by some of the Ministers involved, the staff representative said. Under instruction of the Head of State, the decree would, however, be prepared and issued in the coming days. In the meantime, the work of the technical commissions preparing the liquidation was proceeding as envisaged.

Finally, the staff representative from the African Department noted that the last line of the draft decision on page 31 of the staff report should read: "During the entire period of the stand-by arrangement, while Mali has any overdue financial obligation to the Fund..."; the word "financial" had been inadvertently omitted.

Mr. Alfidja made the following statement:

> On December 9, 1983 the Executive Board approved an 18-month stand-by arrangement with Mali aimed at intensifying efforts, undertaken since 1981, to redress domestic and external imbalances in the economy. The basis of the program was a three-pronged approach to restore the soundness of the public finances and rehabilitate the public enterprises, expand agricultural output through the use of remunerative and market-determined prices, and increase private sector activity and improve investment

policy. Despite the existence of an adverse environment, notably a severe drought, all performance criteria have at present been met and the program is fully on track. The present midterm review was originally scheduled to be completed by mid-September 1984, but had to be postponed because of Mali's entry into the West African Monetary Union (WAMU).

Real GDP is estimated not to have grown at all in 1983 as a result of a drought-induced decrease in cereal production and a sharp decline in groundnut production despite higher output of cotton and an expansion of activities in the secondary and tertiary sectors. The decline in cereal production, combined with delays in the arrival of food aid, triggered an increase in prices, which rose by an average of 10.6 percent in 1983, compared with 3.7 percent one year earlier. That increase in prices was taking place against a backdrop of an average decline in real wages of about 30 percent over the last three years. The same pattern is roughly observable in 1984. Nevertheless, real GDP is estimated to grow by about 1 percent in 1984.

In the fiscal area, the 1983 consolidated government deficit equivalent to 1.5 percent of GDP on a commitment basis was somewhat higher than the program target of 1.2 percent of GDP. The central government deficit was in line with the program, although both revenues and expenditures were higher than planned. The 1984 consolidated government deficit, expected to be equivalent to 0.6 percent of GDP, would be lower, on a commitment basis, than the program target of 0.7 percent. This favorable outturn is due to increased export receipts for cotton, causing a larger than expected surplus for the annexed budget and special funds. The central government deficit is projected to be higher than planned, reflecting a shortfall in revenues mainly because the drought has led to lower receipts from the head and livestock taxes.

During the conclusion of the stand-by arrangement last December, many Directors had emphasized the need to rehabilitate the public enterprise sector, particularly the Société Malienne d'Import et d'Export (SOMIEX) and Air Mali. SOMIEX, which saw its retail and transportation activities terminated in 1982, underwent the following additional changes toward restoring its viability: sale of its loss-making self-service establishments to the private sector, changes in its intervention in cotton exports, and a 20 percent reduction in its staff. Further measures were taken in September 1984, including steps to revitalize the company, an internal reorganization, and associating World Bank-financed technical assistance with the management of the company. It is expected that the company will be able to acheive an operating surplus in its activities in 1985 after several years of overall operating losses.

On October 10, 1984, after having tried other emergency measures, the Government decided to dissolve Air Mali. The authorities are now in the process of establishing a new, semi-public company while organizing in the meantime the management of the company under liquidation. They have requested immediate technical assistance from the World Bank toward this end. Other public enterprises have also been streamlined, including the Postal and Telecommunications Office (OPT), the electricity agency (EDM), and the Office du Niger, which is the most important rice-producing compound in the country. With the liquidation of Air Mali, five public enterprises deemed nonviable will have disappeared over the recent period, an indication of the determination of the authorities to proceed with their adjustment efforts.

As to money and credit policy, in line with the authorities' intention to pursue a tight credit policy, domestic credit rose in 1983 by 7.4 percent, significantly below the program target of 10.2 percent. The restrictive credit policy stance continued in 1984; credit to the economy remained substantially below the program targets in the first three quarters of 1984. The interest rate structure was adjusted upward to the level prevailing in the WAMU. Thus, for example, the discount rate of the Central Bank was increased from 6 percent to 10.5 percent, while deposit rates on small savings deposits were adjusted to 8.5 percent from 5 percent.

In the external sector, as previously mentioned, the drought-related decline in cereal production both in 1983 and 1984 has necessitated increases in cereal imports in both years. Partly as a result of such unexpected imports, the current account deficit, including grants and after debt relief, was higher in 1983 than the program target of 7 percent of GDP. Exports increased by 18 percent in SDR terms, owing mostly to increased cotton production. The overall balance of payments recorded a surplus of SDR 2.7 million, while external arrears were reduced by SDR 5.2 million.

In 1984, the current account deficit, equivalent to 6.5 percent of GDP--including grants and after debt relief--is expected to be higher than the program target of 5.5 percent of GDP. Although exports are expected to increase by 19 percent, with higher receipts from cotton exports more than compensating for lower receipts from other exports (the latter because of the drought-related decrease in the production of groundnuts and sheanuts), imports will be substantially higher than programmed, reflecting mostly the necessary cereal imports.

The medium-term outlook for Mali, as prepared by the staff, reveals a reasonably optimistic picture. The current account deficit, including grants, is expected to decline from 6.5 percent

of GDP in 1984 to less than 3 percent in 1989/90, and beyond 1985, surpluses will emerge in the overall balance of payments. The debt service ratio (after debt relief) is projected to rise from 16.6 percent in 1985 to 18.7 percent in 1986 but is expected to decline thereafter.

On a final point concerning Mali's decision to re-enter the WAMU, I cannot but agree with the staff's fair assessment as indicated on page 29 that:

> The entry into WAMU provides Mali with important benefits, both of a general character and of an immediate financial nature....The staff fully concurs with the view of the authorities that the benefits provided to the Malian economy by the full currency convertibility are substantial and ensure a solid basis for the development of the country's economic potential.

To conclude, I would like to call on my colleagues to reaffirm their support to my authorities in Bamako.

Mr. de Maulde stated that the midterm review of the stand-by arrangement with Mali was very timely, coming six months after a major institutional change on June 1, 1984, when Mali re-entered the West African Monetary Union (WAMU), almost 22 years after having left that currency union. That change, which had involved the complete currency conversion--from Mali francs into CFA francs--had been carried out smoothly and in an orderly manner. Since the franc zone was a zone of fiscal and monetary discipline, Mali's return to it testified to the progress already achieved in the economic and financial management of the country and to the strong commitment of the authorities to the adjustment effort they had undertaken with Fund support. His country, like other members of the zone, welcomed Mali's return, all the more so in that France had made important efforts to make it possible.

The staff report amply demonstrated that the program was well on track, Mr. de Maulde continued, and that all performance criteria had been met. The Malian authorities were to be commended for that achievement, because during 1984 they had had to face not only a major institutional change but also a severe drought. The drought accounted for the projected deviations both in the budget and in the balance of payments for 1984. Nevertheless, because the Malian authorities had maintained firm monetary and incomes policies and because a good cotton crop had provided them with higher than expected fiscal revenues, the program had remained on track.

The productive capacity of the country had been strengthened, Mr. de Maulde considered, even though some delays in implementing supply-side measures might have been encountered in certain areas. Those delays

were, nonetheless, easily understandable, not only because the authorities had had to devote a lot of time to the problems raised by the entry into the WAMU but also because some decisions, such as those in the public enterprises sector, were complex in nature and involved other partners--for example, the World Bank--with their own time constraints and procedures which were necessary to ensure that the projects they financed were correctly designed.

Important steps had been taken to reorganize the main public enterprises such as SOMIEX and Air Mali, Mr. de Maulde noted. Air Mali was to be liquidated and replaced by a new, mixed capital company. Like the staff, he was gravely concerned about the burden that would be imposed upon the new company by the servicing of a nonconcessional loan tied to the purchase of a new plane, a step taken in the brief interval between the conclusion of the previous program and the adoption of the present one. Although no performance criterion had been breached, the seller could not ignore Mali's financial situation and bore heavy responsibility for that imprudent transaction. If it appeared that the airplane's operating revenues were insufficient to cover the debt service payments, the seller should either adjust the terms of the loan, or buy back the plane.

The authorities had taken measures to strengthen the agricultural sector, Mr. de Maulde remarked. Those measures, which included the liberalization of cereal marketing and its gradual extension to rice produced in publicly managed irrigated areas, would provide farmers with better incentives and, in the absence of drought, should entail a sizable supply response. Moreover, he had no difficulties with the program for 1985 delineated in the staff report. In particular, he agreed with the wage increase that the Government was considering to grant civil servants in 1985, coming after a three-year freeze that had entailed a 30 percent reduction in purchasing power. In conclusion, he supported the proposed decision.

Mr. Taha remarked that, the midterm review under the present 18-month stand-by arrangement had been understandably delayed, pending Mali's entry into the West African Monetary Union. Nevertheless, he welcomed that important development; the benefits it generated would have a positive immediate and longer-term impact on the country's development effort. Mali continued to make steady progress toward restructuring and rehabilitating its economy. Despite adverse climatic conditions, the authorities had adopted all the measures agreed with the Fund. He commended them for their determination to keep the program on track and supported the proposed decision.

Progress had been made toward reducing domestic financial imbalances and mobilizing fiscal resources for investment purposes, Mr. Taha observed. Agricultural pricing and marketing policies attested to the gradual reorientation of policy to widen the role of the private sector in Mali's economy. Moreover, the authorities had agreed on a general strategy with the World Bank to rehabilitate the public enterprises--a very important

effort, which, if successfully implemented, should help to improve resource allocation as well as the overall supply situation. Those urgently needed reform measures should be implemented without delay.

The adoption of correct financial and economic policies had enabled the authorities to successfully conclude bilateral agreements for the restructuring of external debt, Mr. Taha noted. As a result, Mali's debt service ratio was currently manageable. However, such arrangements could not be a substitute for expanding the economy's capacity to service external debt; export growth should therefore continue to receive a high priority. To that end, the authorities intented to adopt policies in the future that would ensure continuity in the process of adjustment, and they deserved the continued support of the Fund.

A more elaborate staff assessment of overall financial policies and targets for 1985 would have been helpful, Mr. Taha considered. He would appreciate further staff comment on why the preparation of an investment budget was proceeding slowly, and whatever the implications, if any, for the relevant program targets for 1985. Also, a timetable for the rehabilitation of the public enterprises would have been welcome.

Mr. de Groote said he supported the proposed decision. Although the final preparations for Mali's entry into the West African Monetary Union had occasioned some delays during the first half of the year in implementing the structural measures included in the program, Mali's performance under the stand-by arrangement had been satisfactory, especially in the areas of government finance, the state enterprises, and prices; and the Government had applied a package of corrective measures to get the program back on track. According to the staff representative from the African Department, additional measures had recently been introduced--such as the dismantling of price constraints, especially in the agricultural sector. Although it was not easy fundamentally to alter policies that had been pursued for many years, he was certain that the Government's decision to allow market forces to operate in that sector would produce adequate supply responses in a short time, as had occurred in other countries which had made similar moves of a systemic nature.

Mali's entry into the WAMU would confer important benefits, Mr. de Groote remarked. Henceforth, Mali would enjoy stable exchange rate relationships with its main trading partners and would have to follow--because of its association with the Union--guidelines for monetary and financial policies which were in conformity with the Fund's requirements. Moreover, the beneficiaries of credits from the banking system in Mali would have at their disposal claims in a convertible currency. The Fund would no longer have to concentrate its attention on exchange rate and interest rate issues and would become more involved in supply-oriented structural policies affecting the balance of payments. From its association with the WAMU, Mali could be expected to derive benefits that, as staff studies and the experience showed, were substantial over time.

The present review appropriately focused on the budget, the public enterprises, agricultural policy, and external debt, Mr. de Groote observed, which were also development issues of interest to the World Bank. Moreover, Mali was considering the possibility of obtaining a structural adjustment loan from the Bank. In a country where the concerns and the responsibilities of the Fund and the World Bank overlapped--as in Mali--the actions and operations of the two institutions must be as mutually supportive and complementary as possible. Was he correct in assuming that until recently the Fund alone had had to bear the responsibility for advising Mali on its development policies? He hoped that a balanced cooperation between the institutions could soon be set in operation.

The resource gap between domestic investment and savings of about 18 percent of GDP indicated a sizable imbalance and exceeded the program targets for 1983 and 1984. The ratio of gross domestic investment to GDP was at an acceptable level; therefore, efforts should concentrate on increasing gross domestic savings. He would appreciate staff comment about possible ways of increasing savings. Could Mali, with its considerable development potential, in the future count on a much larger inflow of foreign savings, and would the change to a market economy contribute to that outcome?

The debt service ratio was forecast to increase from 6.2 percent of GDP in 1982 to 18.7 percent in 1986, Mr. de Groote observed. Besides putting pressure on the balance of payments such a rise would place a heavy burden on government resources and would require great efforts to increase government revenues. Whereas further steps were being taken by the authorities to centralize the management of existing debt and to strengthen the accounting management of external debt, it was doubtful that steps of an administrative nature would be sufficient to remedy a problem of such magnitude.

The policies pursued by the Malian authorities were correctly oriented, and the economic program supported by the current stand-by arrangement with the Fund and in close cooperation with the World Bank, should produce the desired restructuring and adjustment of Mali's economy, Mr. de Groote remarked.

Mr. Dallara said that the delayed midterm review of Mali's stand-by program indicated that while progress continued, a number of slippages in policy implementation had occurred, primarily because of the changes necessitated by Mali's entry into the West African Monetary Union, and that economic performance had been somewhat weaker than expected, largely due to the drought. While entry into the WAMU was a most important step for Mali, it was unfortunate that it had slowed the adjustment effort. However, in recent months the policy slippages had been addressed, and thus the program had not deviated from its track.

The consolidated fiscal deficit in 1984 would be somewhat lower than had been expected, Mr. Dallara continued. The authorities had taken strong measures to limit government hiring and to maintain a wage freeze for most of the year. Arrears were also being reduced as planned; on a cash basis the deficit would fall to 1.2 percent of GDP, a seemingly impressive accomplishment--"seemingly" because, as the footnote on page 6 of the staff report explained, the budget figure quoted did not include investment expenditures financed by foreign aid, which in 1983 were estimated to have been about 13 percent of GDP. Since foreign aid consisted of concessional loans and not grants, would it be accurate to add 13 percent to the government deficit to GDP ratio? He would appreciate staff elaboration on that point.

Welcome progress had been achieved in reforming the public enterprise sector and, in particular, the liquidation and privatization of several enterprises, Mr. Dallara remarked. Furthermore, a general strategy for rehabilitating the entire sector recently had been agreed with the World Bank. The project of public enterprise reform should be finalized by mid-1985, and the authorities should implement the recommended measures as soon as possible.

Foreign partners were being considered for the new airline, and no further losses would be incurred by the Government, Mr. Dallara observed. In addition, if the operating revenues of the new airline were insufficient to finance the debt service payments, the authorities were committed to selling the new plane, which had been purchased on nonconcessional terms, at a cost which exceeded 1 percent of GDP.

The authorities had acted wisely in letting market forces determine the pricing and marketing of cereals through nonofficial channels, Mr. Dallara considered. While the authorities hesitated to raise official prices because of the continued wage freeze, they should allow them to reflect market forces. He wondered whether the controlled official prices had encouraged any transfers across the border, thus contributing further to domestic shortages. The authorities should also hasten the liberalization of the rice sector and the planned increase in the autonomy of farmers.

Credit growth and monetary expansion had been kept within the ceilings so far, Mr. Dallara remarked. Nonetheless, the rate of inflation would be higher than expected, apparently owing to the food price increases caused by the drought. Although interest rates had been raised following Mali's entry into the monetary union, they nevertheless remained negative in real terms, given the 15 percent inflation rate. If the inflation rate did not subside as expected, the authorities should seek additional interest rate increases in the context of the monetary union.

He wondered what was the actual exchange rate at which entry into the monetary union had taken place, Mr. Dallara indicated. Did the staff believe that the current exchange rate would help to ensure the competitiveness of Mali's traded goods sector? The staff had referred to a

trade-weighted nominal depreciation in 1983 and 1984; he would be interested to learn what had happened to the trade-weighted real effective exchange rate in that same period.

The 1985 program appeared to have consolidated the financial and structural changes initiated in 1983, Mr. Dallara considered. Wage increases averaging 10 percent had already been approved by the authorities, to be offset by an expected increase in revenues and a savings in subsidies. If the savings did not fully materialize, the authorities should be prepared to take alternative measures, since even with those measures the current account deficit in 1985--at 5.8 percent of GDP--would be high.

An investment budget should be developed promptly to indicate to donors the authorities' priorities in the investment area and to assist in controlling budgetary expenditures, Mr. Dallara remarked. He also expressed his satisfaction with the high degree of Fund-Bank collaboration in Mali. He supported the proposed decision.

Mr. Leonard stated that he supported the proposed decision. Although 1984 had in a number of ways been unfavorable to the execution of the adjustment program undertaken by the Malian authorities, they had done well in meeting all performance criteria so far. In particular, they had maintained a firm grip on the fiscal and financial situation in the face of unexpected difficulties and had shown remarkable commitment in dealing with the parastatals, in containing the growth of nominal incomes in the public sector, and in limiting the number of public servants.

There were sound reasons to expect that the adjustment program would remain on target for the period ahead and that a return to a large measure of internal and external balance would be achieved, Mr. Leonard considered. During the review the main financial policies and objectives for 1985 had been established so that continuity of adjustment would be maintained after the program. A satisfactory external performance of the economy in the medium term also could be reasonably expected: the overall external balance was projected to be positive in 1986 and to move into increasing surplus thereafter.

Despite the fairly favorable picture, Mr. Leonard added, causes for misgiving existed. The expected growth of GDP in 1984 was only 1 percent, and the projected figure for 1985 was no more than 2 percent. Living standards had declined by more than 30 percent over the last three years. Although the public sector was being streamlined both in terms of its relative size in the economy and the manpower employed, whether those disemployed could be re-employed elsewhere in the economy or how total employment and unemployment would develop was unclear. External debt service would be high for some time to come, and the well-being of the economy would continue to depend on substantial inflows of concessional finance.

Despite those uncertainties, the construction of a solid base for future progress was also under way, Mr. Leonard concluded. Entry into the WAMU was one part of that base. The establishment of an adequate and sound investment program, which was being worked out with the World Bank, was another and would raise the growth of output as well as living living standards. The strategy of giving the private sector a more substantial economic role could also prove to be well-founded. The outturn of those and other aspects of development, as well as the evolution of internal and external balances, should be carefully examined during the Board's future consideration of developments in Mali's economy.

Mr. Qureshi said that he agreed with the staff appraisal. Despite the difficulties created by the severe drought, the record of implementation of the wide-ranging financial and structural adjustments envisaged in the program had been good. All the performance criteria had been observed so far, and the program outcome--in terms of both domestic and external financial balance--had been generally in line with the targets. Over the same period, the country's entry into the West African Monetary Union had been completed. The policies and targets established for 1985 seemed appropriate and should enable further significant progress in improving the budgetary and balance of payments positions as well as in the ongoing structural adjustments in the economy. He therefore supported the proposed decision.

The medium-term balance of payments scenario projected a sustained, improving trend in the payments position through 1990, Mr. Qureshi continued. It was clear, however, that the economy's dependence on foreign grants and concessional assistance would remain substantial for some time. In the longer run, economic development and balance of payments viability would depend importantly on the country's ability to supplement available external resources with an adequate mobilization of domestic resources by raising the savings rate. Although that was a difficult task, given the extremely low per capita income, an aspect of the medium-term economic strategy should be to secure a gradual increase in the domestic savings rate to significantly positive levels from the currently negative ones. At the same time, to ensure that the available investable resources--both domestic and external--were used efficiently and in line with an appropriate investment strategy, the planning and monitoring of investment expenditure should be strengthened. A necessary step in that regard was the preparation of an investment program and the bringing of public investment expenditures within the budgetary framework. He invited staff comment on the present status of work on the preparation of an investment budget, the prospects for medium-term investment planning, and the status of technical assistance from the Fund and the Bank in that regard.

It would be helpful if medium-term balance of payments scenarios provided clear statements of the main underlying assumptions, including the assumed rates of change in the relevant magnitudes, Mr. Qureshi

remarked. For example, what assumptions had been made with respect to the GDP growth rate or, the change in the external terms of trade, and how was the projected growth of exports and imports distributed between volume and value changes? Considering the increasing importance being attached to medium-term balance of payments projections in Fund consultation reports, as well as in the interest of clarity of presentation and ease of reference, it might be useful if the assumed rates of change underlying such projections were presented either in tabular form or as a footnote to the table containing the projections, with their bases adequately explained in the text, particularly when the medium-term projections covered a number of years, such as six years in Mali's case.

Mr. Goos observed that for some time the Board had witnessed a growing number of African countries undertaking remarkable adjustment efforts in the face of very unfavorable economic developments that were beyond their control; Mali could be added to that list of countries. Despite the second severe drought in a row and other disturbances, the country had met all performance criteria and had kept the program on track. Unlike many other African countries, Mali had been helped to a considerable extent by favorable developments in at least one sector--the cotton sector; nevertheless, it had also undertaken decisive steps in the area of structural reform that already were producing positive results. In that context, he welcomed the active involvement of the World Bank in the process of reform.

As to the future course of adjustment policies, much remained to be done, particularly in agricultural pricing, marketing policies, and rehabilitation of public enterprises, Mr. Goos remarked. Even though most recent measures were encouraging and appropriate, was there not scope for speedier action in some areas--particularly on liberalizing the pricing and marketing of paddy produced in the publicly managed irrigated areas? In addition, could the staff elaborate on the compensation mechanisms mentioned in the "Memorandum on Review of Program Execution," which were intended to attenuate the impact of higher agricultural prices on urban purchasing power and on the difficulties encountered in their operation? To what extent might those mechanisms be an impediment to fostering reform and fiscal adjustment?

He congratulated Mali for its entry into the West African Monetary Union, an entry that was expected to stimulate the economic integration of all partner countries and hence their economic strength, Mr. Goos continued. The decision would be beneficial for Mali, but the staff had not elaborated on the policy consequences. After all, by joining the Union, Mali had given up important economic policy instruments--an independent exchange rate and monetary policy--which would restrict its freedom to maneuver. With a relatively high trade weight of countries whose currencies were not related to the French franc, Mali's external competitiveness indeed could deteriorate without permitting timely corrective action. He also would have appreciated staff comment on the appropriateness of the exchange rate of Mali's currency at the time of entry into the Union.

Despite the favorable medium-term outlook for the balance of payments, it was clear that the country would remain dependent on considerable financial assistance from abroad for some time, Mr. Goos commented. Given the already very high indebtedness, including the sizable debt service obligations to the Fund, every effort should be undertaken to increase domestic savings and to reduce the current account deficit through fiscal discipline and continued structural adjustment. Early preparation of an investment budget would certainly be an important step in that direction. In view of the impressive measures already introduced, he was confident that the country would take those steps, as indicated by the authorities' establishment of financial targets for 1985--beyond the time frame of the current stand-by arrangement--in consultation with the staff.

While it was not his intention to criticize the staff, he would be very concerned if the exceptional number of corrections to the staff paper were the result of an overburdening that might eventually threaten the outstanding quality of the staff's work, Mr. Goos remarked. To conclude, he supported the proposed decision.

Mr. Prowse stated that Mali had undertaken an impressive amount of adjustment for which the authorities were to be commended. Although there were clear and substantial benefits arising from Mali's entry into the WAMU, the staff paper had been less comprehensive concerning the consequences of that action than he would have wished. As some Directors had stated, the Fund would no longer have to concern itself with monetary or exchange rate policy for Mali because of the new institutional arrangements. The staff paper should therefore have dealt with the future framework of analysis and assessment within which the Fund's relations with Mali would be conducted. Countries belonging to monetary unions were in a situation quite different from that of other Fund members with regard to the degree to which they conducted independent monetary and exchange rate policy and their freedom to make budget decisions. Was the regular procedure for an Article IV consultation the most appropriate or useful one in those circumstances? Furthermore, the staff paper noted that one of the benefits which would arise from membership in the WAMU was a stricter economic integration with neighboring countries. Did the staff have a view about whether economic integration should be taken further? What was the optimum economic integration for those countries? How did one allow for the varying rates of different economic variables--for example, price changes between the members of the Union?

Since the Fund would no longer have to concern itself with monetary and exchange rate policy in Mali, it would be able to focus more on structural issues, Mr. Prowse continued. That affected the relationship between the Fund and the World Bank, and their relationship with Mali, and raised the question whether the Fund should be tending in that direction.

Mr. Camara said that he congratulated the Malian authorities for successfully implementing the stand-by arrangement so far. All the quantitative performance criteria had been met despite the difficulties

imposed by drought conditions, which had necessitated substantial food imports. As a result of depressed agricultural production, the growth of real GDP had fallen well below the program target, and the rate of inflation had accelerated. Food imports had been financed largely through external grants, which had eased Mali's financial burden. Because food shortages were expected to persist in 1985, the international community should continue to extend assistance to Mali.

The stand-by program had been implemented at a time when Mali had decided to join the WAMU, Mr. Camara recalled. That had had obvious implications for the program, and he was encouraged to note that the staff was satisfied with the changeover. Other than the short-lived capital outflow, which had been reversed at the completion of the changeover, disruptions to the economy apparently had been minimized.

Although the public sector had been a major source of financial imbalance in Mali, the overall public sector deficit on a cash basis was expected to be below target in 1984, mainly as a result of the surplus that was anticipated in the annexed budget and special fund, Mr. Camara noted. That surplus, attributable to the increase in revenues from cotton exports, was projected to offset the central government deficit, which was estimated to exceed slightly the program target. While expenditure had remained on track, there had been in fact a large shortfall in revenue; hence, the deficit did not arise as a result of inappropriate action by the authorities.

The Malian authorities had also undertaken some bold measures to minimize the recourse of public sector enterprises to budgetary support, Mr. Camara continued. The closure of the national airline, which had been suffering heavy losses, showed the authorities' determination to achieve the objectives of the program. In that connection, he welcomed the comprehensive reforms that were being contemplated for the rest of the public corporations and that were to be undertaken with the assistance of the World Bank.

The growth of public sector debt, which had accelerated in the past few years, was worrisome, Mr. Camara remarked. Although the debt service ratio remained relatively low compared with those of other African countries, the authorities should follow a cautious borrowing policy to avoid aggravating the external debt servicing problem.

The outlook in the medium term still remained difficult, and the authorities would need to persevere in their adjustment effort, Mr. Camara concluded. The fiscal program that had been established for 1985 was built upon the gains achieved so far, and the authorities should emphasize those policies that would ensure durable economic growth in the future.

Mr. Agah noted that the midterm review, originally scheduled for the end of September 1984, had been delayed by Mali's entry into the West African Monetary Union, since that had had financial implications which needed to be studied. Mali's entry into the Union had taken place in

June 1984, and considering Mali's success in carrying out the provisions of the stand-by arrangement thus far--including the policy measures associated with the WAMU--no further review seemed necessary.

Mali's economy was like those of other sub-Saharan countries--totally dependent on the agricultural sector, Mr. Agah observed. The prevalence of the drought had reduced the production of cereals and groundnuts in 1982-83 and had led to a stagnation of GDP. The drop in cereal production had led to a 16.5 percent increase in the foodstuff price index in 1983. Only cotton production, which took place in the southern part of the country, had registered an improvement, increasing nearly 30 percent in the same year. The persistence of the drought had also led to decreased production of millet, sorghum, and maize, all of which declined by 20 percent in relation to annual production since the 1970s. In the first half of 1984, the cereal shortage and the inevitable delays in the distribution of food aid had placed further pressure on foodstuff prices, which had increased by another 20 percent.

A good start had already been made in 1983-84 to reduce domestic and external financial imbalances and to intensify the pace of the substantial effort to restructure the economy within the framework of a Fund-supported program, Mr. Agah considered. Although the severe drought and the delays attending Mali's entry into the WAMU had made the implementation of the program difficult, the Malian authorities, conscious of their commitment to the Fund, had successfully met the performance criteria for the end of March and the end of June 1984. Likewise, the remainder of the performance criteria for the end of 1984 were expected to be met.

To ensure continuity in the adjustment process, the Malian authorities had set targets for 1985 based on an improvement in the production of cereals and cotton, Mr. Agah remarked. Under that assumption, GDP should grow by 2 percent, and inflation should remain at 6 percent. Likewise, the fiscal position should be in equilibrium on a cash basis--following a deficit of CFAF 5.5 billion in 1984--provided the growth in expenditures was limited to 4.5 percent and that a 10 percent increase was realized in revenues from taxes, duties, and savings on subsidies. To cover an external debt amortization amounting to CFAF 4.3 billion, the authorities would use the accumulated 1984 cotton revenues--estimated at CFAF 3.5 billion--thereby avoiding recourse to external budgetary assistance. Under those circumstances, the overall balance of payments should be close to equilibrium in 1985, and credit growth should be in line with an expanded money supply and consistent with the projected increase in nominal GDP. With the projected reduction in the current account deficit over the next three years, the balance of payments could show an overall surplus after 1985.

The Malian authorities had shown enormous courage and determination in implementing the 1984 program, Mr. Agah considered. The adjustment program had been executed almost to the letter, and despite reduced exports and tax revenues, financial performance had been satisfactory. Mali's entry into the West African Monetary Union had been accomplished

smoothly, and a number of advantages were expected from that association that would not only ensure the full convertibility of Mali's currency--already a significant result--but also would provide advantageous financial arrangements and the greater likelihood of economic integration with neighboring countries. At the same time, Mali had undertaken to rehabilitate key public enterprises and had set out to encourage agricultural production through market liberalization. Meanwhile, a number of countries had agreed to reschedule Mali's external debt, thereby containing its debt service burden. All those measures were to be reinforced in 1985. Therefore, Mali deserved the Fund's continued support.

The staff representative from the African Department, commenting on Mali's re-entry into the West African Monetary Union, noted that Mali's exchange rate policy would henceforth be determined in a multilateral context, since any change in the exchange rate would have to be coordinated with the other members of the Union, whereas previously--since 1968--Mali's exchange rate had been pegged, without any change in the peg, to the French franc. Moreover, the Central Bank of the West African States (BCEAO) had become the monetary authority for the country, and Mali was consequently subject to strict, disciplinary monetary and credit policies which, in principle, should reduce the need for adjustment through other instruments, such as the exchange rate. It would not be correct to say, however, that Mali's monetary policy would no longer be independent and would be determined only in a multilateral context; the BCEAO set monetary and credit policies for its various members according to the needs of each country. Credit ceilings would be established annually, taking into account the balance of payments prospects, the demand for money, and the rate of inflation. Credit to the Government, however, would be limited to 20 percent of the fiscal receipts of previous years. Credit to the economy also was administered and regulated strictly with a well-defined rediscount policy and with credit ceilings that were set annually and on a month-by-month, bank-by-bank basis.

Membership of the Union assured the full convertibility of Mali's currency, the staff representative continued. A bilateral exchange agreement with France had previously ensured convertibility, but that had been a transitory arrangement. Full convertibility would permit a quite liberal trade and exchange regime, with very few limitations on transfers for invisibles, services, repatriation, and capital movements.

The resource gap between domestic investment and the savings ratio in 1983 and 1984 was higher than what had been envisaged in the program, the staff representative explained. However, the gap was smaller for 1984, mainly because of some exceptional imports in 1983, such as the airplane that had accounted for more than 1 percent of GDP. The program also had been designed with the expectation of better climatic conditions and a higher growth of real GDP. When GDP outturn was worse than expected in a country with a very low per capita income, savings were squeezed rather than consumption. The decrease in savings usually took the form of destocking; and in both 1983 and 1984 the destocking of cereals and livestock had been reflected in a deterioration of the savings ratio.

If, however, normal climatic conditions prevailed in the future, the savings rate was expected to increase. Because of Mali's dependence on foreign assistance and the increasing debt service ratio over the next few years, Mali would nevertheless have to make a significant effort to increase its savings ratio. The debt service ratio of 18 percent in 1987 was very high; a large component of that ratio was obligations to the Fund, especially repurchases. Excluding those obligations, the ratio would be 10 percent, accounted for by the debt service on the nonconcessional loan to purchase the plane, which might be renegotiated. Nevertheless, even if the plane were sold, the debt service ratio would remain relatively high.

All the available indicators had shown that the exchange rate was appropriate from the export side at the time of Mali's entry into the monetary union, the staff representative noted. The profitability of Mali's export sector, consisting mainly of cotton and livestock, had been rising and was quite large. Cotton had been exported in 1984 at a price of approximately CFAF 700 per kilo, while the cost of production was only CFAF 500; profitability in that sector was nearly 50 percent, due in part to the prevailing favorable prices for cotton--a price which might not continue in the future--and in part to the nominal depreciation of the CFA franc vis-à-vis the U.S. dollar. As cotton prices were dollar-denominated, the depreciation of the CFA franc had been a boon to the economy. Likewise, the profitability of livestock and meat exports was high. While the depreciation of the CFA franc had been favorable for Mali, that development had been offset for other countries in the monetary union by the denomination of a large part of their debt in U.S. dollars. Mali's debt was to a large extent concessional, and the depreciation of the CFA franc had had a more limited impact.

The structure of interest rates in Mali was complex, the staff representative explained. The minimum interest rate on term deposits of more than one-year maturity was 9 percent, and rates were negotiated, as in all BCEAO countries; all interest rates on deposits in CFA francs were also negotiable. Lending rates ranged from 11 percent to 15 percent and were positive in real terms. Whereas the rate of inflation in the past had accelerated because of the drought, the index had been relatively stable since May 1984. The average interest rate would become more positive in real terms in the future.

The staff had not provided information on the real exchange rate, because it was not routinely calculated for Mali since the coverage of the price index--a food price index--was limited, the staff representative explained. The Malian authorities had indicated that the consumer price index in 1985 would be more broadly based. It might be possible to indicate a real exchange rate using a GDP deflator, or perhaps more appropriately, a deflator designed for the export sector--for instance, the cost of the production of cotton. Nevertheless, the staff view was that the cotton export sector was profitable, and that no problems had arisen from the current exchange rate.

2. MAURITANIA - 1984 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1984 Article IV consultation with Mauritania (SM/84/257, 11/19/84; and Cor. 1, 12/6/84), together with a proposed decision concluding the 1984 Article XIV consultation. They also had before them a report on recent economic developments in Mauritania (SM/84/262, 11/26/84).

Mr. Alfidja made the following statement:

Economic activity in Mauritania during 1980-82 was adversely affected by the recurrent drought and depressed international demand for iron ore, the major export commodity. The drought led to a substantial decline in agricultural output and losses in the livestock sector. As a result, the rate of growth of real GDP remained stagnant around 4 percent a year, compared with 8 percent in 1979. It declined by 2 percent in 1982 because of the worsening of the drought, but a sharp recovery in economic activity occurred in 1983 when real GDP increased by about 7 percent. This dramatic turnaround was due mainly to increased output in the mining sector. Livestock, fishing, and some of the public enterprises also contributed to the revival in economic activity. The rate of inflation declined further to 5 percent in 1983, from about 12 percent in 1981 and 8 percent in 1982.

Substantial domestic and external financial imbalances, remain, however, despite the adjustment measures implemented in 1981 and 1982. Since then, intensified efforts by the authorities to implement a number of adjustment measures led to some improvement in financial and economic performance in 1983. In the fiscal sector, the deficit on consolidated government operations (on a commitment basis) was reduced, reflecting higher revenue receipts from petroleum products and fish exports. As a result of restrictive and selective credit policy to discourage credit for consumer goods in favor of productive activities, the rate of domestic credit expansion slowed significantly. In the external sector, the current account deficit was reduced by 30 percent between 1982 and 1983, although it was at an unsustainable level. This reduction was due to a significant improvement in fish exports resulting from the strict enforcement of measures requiring that the entire fish catch be landed for verification prior to exportation. Imports, on the other hand, declined owing to the lack of foreign exchange. The overall balance of payments deficit showed a slight improvement in 1983.

In 1984 the authorities continued to implement the adjustment measures that were initiated in the two previous years. Under the 1984 budget, they undertook to increase revenues and reduce expenditure. On the revenue side, they sought to improve

the efficiency of tax administration, broaden the tax base, and increase tax rates. On the expenditure side, they decided to contain expenditure by drastically cutting the appropriations for extrabudgetary expenditure and net lending, and to freeze salary increases. When budget performance during the first three months indicated the need for further fiscal adjustment to counteract the uncertain revenue prospects, the authorities in April 1984 implemented a number of expenditure-reducing measures equivalent to a 20 percent cut in budgetary appropriations. Additional revenue measures included a revision of the tax exemption system. For 1985, the authorities intend to continue pursuing a policy of fiscal adjustment with the objective of stabilizing current expenditure, increasing revenue, and reducing the deficit on government operations from 13 percent of GDP in 1984 to 7 percent of GDP in 1985. To this end, they will continue to improve tax administration, for which the Fund has provided technical assistance. Additional revenue is expected from the export tax and royalties from the fishing industry--for which new marketing arrangements have been instituted--to enhance repatriation of export proceeds.

In the area of pricing policies, the authorities have recognized the weaknesses in the system of price controls that prevailed in recent years. It is their intention, therefore, to correct these weaknesses and to pursue a flexible pricing policy under their medium-term economic rehabilitation program.

In the public enterprises sector, they have embarked on a major restructuring program with technical and financial assistance from the World Bank and other international financial institutions, including the European Investment Bank. They have recently established general guidelines to govern the operations of all public enterprises, and taken specific measures to close down a few of them. In addition to the recent tariff increases for electricity and water, the authorities have substantially reduced the personnel of the Ports Authority, completed studies for making improvements in the billing and accounting procedures of the postal system, as well as a survey of the indebtedness among the enterprises, the Government, and the banking system.

In furtherance of their aim to implement prudent policies for attaining sustainable growth over the medium term, the authorities have drafted a comprehensive medium-term economic rehabilitation program for the period 1984-88. The program contains a detailed public investment program, which will be discussed with the World Bank.

In the area of money and credit, they will pursue restrictive policies in 1985 to support their fiscal policies and to improve the external payments position. They have already taken measures to limit credit to the Government while containing the domestic

private sector's access to foreign borrowing. These measures are intended to reduce the banking system's total net foreign liabilities, whose increase in recent years was partly a reflection of the inability of some private customers to service their foreign debts. Efforts to rehabilitate the commercial banks are under way. The results of a study, to be financed by the Arab Monetary Fund, will further assist the authorities in taking additional measures to strengthen the banking sector. As to interest rates, the authorities are aware that differentials exist between Mauritania and its neighboring countries. They therefore intend, before the end of 1984, to undertake a study on appropriate basic discount rate and interest rate structures to assist them in formulating a policy in this area.

The medium-term prospects for the balance of payments have been projected to remain difficult. The authorities will therefore undertake measures to deal with them. They have kept the exchange rate policy under review since the latter part of 1983 and have taken action to significantly depreciate the ouguiya in real terms. This action had been taken at great social cost. Nevertheless, they will continue to review their exchange rate policy in the context of evolving circumstances.

The Mauritanian authorities believe that their efforts should be supported with assistance from the Fund under a stand-by arrangement and from the World Bank under their public investment program for achieving a sustainable rate of growth over the medium term. They hope that their efforts will attract the necessary financial support from the international community for achieving their national economic objectives.

Mr. de Groote stated that despite some improvement in the overall performance of Mauritania's economy in 1983 compared with the previous two years, the economic situation was likely to remain difficult for many years to come, even with appropriate policies. Deep-seated domestic external imbalances existed, and medium-term balance of payments scenarios indicated that the projected financing gaps would not be covered by debt relief. Clearly, it was important to implement well-designed financial and external policies in combination with structural reforms, and he therefore welcomed the authorities' intention to formulate a comprehensive medium-term rehabilitation program for 1984-88. In addition, increased flows of long-term assistance and credits from donor countries and the World Bank would be crucial to Mauritania's future.

One of the weaknesses of the Mauritanian economy was the gap between gross domestic investment and savings, which amounted to about 30 percent, Mr. de Groote observed. Gross fixed investment had hovered around 25-30 percent of GDP, while gross domestic savings had been negative. Policy and strategy with respect to investment and savings were fundamental economic issues, and the Government's intention of limiting annual

investment expenditures to 18 percent of GDP for 1984-88, was therefore a welcome development. A World Bank technical assistance project, presently in an early stage, was to help formulate an investment program. Such a program, endorsed by the Bank, should form a basic element of any Fund-supported adjustment program. In its development effort, Mauritania should give priority to developing further the mining and fishery sectors, to obtaining more substantial advantages from its fishing concessions, and to developing agriculture along the banks of the Senegal River. A parallel effort also should be made to raise gross domestic savings from their present negative levels.

Restructuring of the public enterprises also was needed, Mr. de Groote considered. Those enterprises, which accounted for 25-30 percent of Mauritania's total GDP and employment, were affected by several problems, including overemployment, low productivity, inadequate bookkeeping, and managerial problems. The authorities must make a concerted effort to solve those problems, knowing that it would take a long time to do so. The recent steps taken in that direction were appropriate but should be sustained and supplemented by further, comprehensive measures.

A rapid accumulation of nonperforming loans had deteriorated the liquidity position of the deposit money banks, Mr. de Groote remarked. Despite the Government's actions, the financial situation of the banking sector was critical and required further action. He hoped that the study of the banking sector being financed by the Arab Monetary Fund and the Central Bank's study of interest rate policy would soon be completed so that the recommendations in them could be implemented.

The present methods for valuation of the ouguiya--which had resulted in broken cross rates--were not rational and should be eliminated, Mr. de Groote considered. The present exchange rate should be adjusted to increase the competitiveness of the industrial sector, stimulate agricultural production, and reduce the imbalances of the external sector. He wondered whether the staff envisaged a financial program for Mauritania, once the inadequacies in present policies had been eliminated. In his view, Fund assistance could not be meaningful unless it were closely integrated not only with World Bank actions but also with long-term commitments on a concessional basis on the part of donor countries.

A sizable reduction in the imbalances of the Mauritanian economy would require the continued implementation of stabilization policies and structural reforms, Mr. de Groote concluded. Even though corrective action was still in the initial stages, the authorities were headed in the right direction and by continued effort over the medium term would be able to create the conditions for sustainable economic growth and external adjustment.

Mr. de Maulde commented that in view of the poor statistical base which existed in Mauritania, the staff had had to exercise considerable imagination and judgment to provide the comprehensive data that appeared

in Appendix IV. The authorities should proceed with their efforts to improve their statistical apparatus with the technical assistance of the Fund.

Whatever the reliability of the absolute figures, their direction indicated the very difficult situation which the Mauritanian economy was facing, Mr. de Maulde continued. Large internal and external imbalances had developed in a number of areas and were reflected in the large stock of external payments arrears and in the medium-term outlook for the balance of payments--a gloomy picture even after assuming that the authorities would embark on a comprehensive adjustment effort. A number of external factors had contributed to that situation. The impact of the recurrent drought had repeatedly thwarted efforts to develop agricultural production in the southern part of the country. Because of its geographical location, Mauritania had been the hardest hit by desertification of all the Sahelian countries, and had become more and more reliant on external food assistance. The difficulties encountered worldwide by the steel industry had resulted in the decline in the volume and value of Mauritania's iron ore exports. Also, Mauritania had faced enormous problems in its effort to control the exploitation of the abundant fish resources existing within the 200-mile limit of its exclusive economic zone.

A number of the country's difficulties also derived from inappropriate economic and financial policies, Mr. de Maulde added. The budget deficit had soared to an unsustainable level, monetary policy had been too accommodative, and the investment program had been overambitious and insufficiently selective. In the absence of a flexible exchange rate policy, until quite recently, the exchange rate had appreciated steadily since 1980; that had compounded the other imbalances, notably by encouraging imports--part of which were re-exported unofficially to neighboring countries--and by discouraging official exports, notably in the fishing sector. Therefore, it was not surprising that gross national savings had been constantly negative since 1979 and had represented a large portion of GDP--for instance, 18 percent in 1984--which, combined with high levels of investment, had created an unsustainable resource gap.

The authorities had initiated an effort to tackle those problems and steps had been taken gradually to adjust the exchange rate, Mr. de Maulde said. But those actions still fell short of the comprehensive adjustment effort that the size of the problem commanded. In order to restore the competitiveness of the Mauritanian economy, the cornerstone of such a program would have to be a sizable depreciation of the exchange rate followed by a flexible exchange rate policy.

The Mauritanian authorities had requested the support of the Fund to assist them in their endeavor, Mr. de Maulde noted, and he hoped that it would be possible to put a program in place in the near future that could be supported by the use of Fund resources, Mr. de Maulde noted. However, it was clear that a large part of the difficulty that Mauritania was facing was structural in nature and that the imbalances were of such a

magnitude that it would take a number of years of resolute and sustained adjustment effort to correct them. The amount of external financing needed in the meantime to close the resource gap greatly exceeded what normally could be expected from the Fund. Therefore, a concerted effort would be required, including generous rescheduling arrangements on the part of creditors and sufficient inflows of foreign capital--ideally in the form of nondebt-creating flows, or on very concessional terms. Undoubtedly, the World Bank would have a great role to play to help the Government formulate a sound and reasonable investment program that gave priority to the rehabilitation of existing capacity. Also, the restructuring of the public sector and a thorough reform of the banking system should be given priority.

The authorities were to be commended for the steps they already had taken to reorient the economy toward a more balanced situation, Mr. de Maulde remarked. He hoped that that policy would gather further momentum in the months to come in the context of a program that could be supported by the use of Fund resources.

Mr. Taha stated that he supported the proposed decision. Clearly, the staff appraisal indicated the serious economic, financial, and structural problems facing Mauritania and identified areas where policy actions were needed urgently. He hoped that an early agreement could be reached on a set of policies to address Mauritania's underlying economic problems in the discussions under way between the authorities and the staff concerning a program to be supported by the use of Fund resources, and he was confident that the authorities would cooperate with both the Fund and the Bank to find suitable solutions.

Mauritania needed to initiate promptly a sustained, extensive adjustment effort on the domestic and external fronts, Mr. Taha added. Moreover, an intensive structural adjustment was called for. Although such an effort would inevitably entail a heavy burden, a suitable mix of domestic and external policies had to be implemented to attain a viable external payments position over the medium term.

Fiscal policy should be strengthened through a sharp reduction in current outlays and tighter expenditure controls, Mr. Taha considered. The recent revenue measures were a step in the right direction, but more such measures were needed, including a stronger enforcement of tax administration. In the area of money and banking, a restrictive credit policy should be adopted to reinforce the required fiscal stringency. Also, adequate measures were required to deal with the weaknesses in the banking sector. Therefore, he welcomed the proposed technical assistance from the Arab Monetary Fund and hoped that the recommendations of the study would help to restructure the banking system. In the meantime, the initial steps to increase the capital of the banks were encouraging, but lending and repayment procedures also required strengthening.

The rehabilitation of the public enterprises was crucial for improving both the financial and supply sides of the economy, Mr. Taha remarked. The authorities could benefit from the technical and financial assistance of the World Bank in that area.

There was urgent need to enhance the competitiveness of Mauritania's exports and to eliminate external arrears, Mr. Taha considered. An appropriate exchange rate strategy would be required to achieve those objectives. Also, the authorities should consider the gradual liberalization of the trade system.

The authorities' efforts to improve the quality and currentness of economic and financial data were commendable, Mr. Taha remarked, and were an essential prerequisite for economic and financial management. Nevertheless, more needed to be done, and if necessary the Fund should increase its technical assistance.

The authorities would find it possible to agree in the near future on a stabilization program that could be supported by the use of Fund resources, Mr. Taha said.

Mr. Camara said that the favorable developments that had taken place in the Mauritanian economy in 1983 had proven to be temporary. Following a 6.6 percent growth in 1983, real GDP was estimated to have declined by 3.6 percent in 1984, mainly owing to a combination of unfavorable exogenous domestic and external factors, including persistent drought, depressed world demand for iron ore, worsening terms of trade, and declining net capital inflows. Inadequate domestic policies, both economic and financial, had also been a major contributing factor to the poor performance of the real sector. The inflation rate, although moderate in comparison with that of many other developing countries, had accelerated sharply from 4.9 percent in 1983 to an estimated 12.5 percent in 1984. Fiscal and external payment imbalances had also intensified, and the country had continued to accumulate arrears. The authorities were aware of the situation and were taking steps to adopt a comprehensive adjustment program--including the formulation of a medium-term rehabilitation program and the reorientation of government investment policies. He endorsed the authorities' intention to seek Fund support for a stand-by arrangement and encouraged the reinforcement of measures already initiated along the lines of the staff's recommendations.

The World Bank was involved in Mauritania, providing financial as well as technical support, Mr. Camara continued. The statement on page 8 of the staff report indicating that World Bank support of the authorities' investment plan would be a prerequisite for any Fund arrangement was, however, worrying. That type of cross-conditionality would only make things more difficult for Mauritania and would delay the adoption of needed adjustments.

The scaling down of the size of annual public investment under the Fourth National Development Plan to 18 percent of GDP and the initiation of a comprehensive medium-term program for 1984-88 encompassing the rehabilitation of the parastatals and the establishment of the Government's investment priorities and objectives were steps in the right direction that would help to ensure a more efficient allocation of scarce resources and contribute to sustainable economic growth, Mr. Camara considered. He hoped that the authorities and the World Bank would reach an agreement presently on an investment program that would have donor support. In view of the importance of the parastatal sector, the major restructuring of public enterprises being implemented with international assistance should not only reduce budgetary costs but also enhance productivity and economic growth.

The authorities' intention to liberalize prices, Mr. Camara noted, was a necessary step toward reducing subsidies, making the public enterprises financially viable, and reducing outflows of goods to neighboring countries. Producer prices should be set at levels that encouraged domestic production and provided sufficient incentive for sustained expansion in the agricultural sector.

The variety of measures taken by the authorities in 1984 to generate more revenue and contain expenditure were commendable, Mr. Camara remarked. However, the overall budget deficit--estimated at 12.5 percent of GDP on a commitment basis--remained high and called for a continuation of the cautious expenditure policy and further efforts to raise additional revenues. In that regard, the objective of eliminating the budget deficit by 1985 might not be feasible. Could the staff comment on that point? Because of the possible impact of further compression of particular components of expenditure, a balanced approach was needed in reducing expenditure.

The current restrictive monetary policy needed to be maintained and reinforced, Mr. Camara considered. The authorities should closely monitor the access of the private sector to foreign borrowing, strengthen the banking institutions, and enhance their ability to collect debt due on the private sector. The study of the banking sector to be undertaken with assistance from the Arab Monetary Fund should help the authorities to implement a comprehensive reform of the sector.

Mauritania's medium-term balance of payments outlook remained weak, Mr. Camara observed. Without clear favorable prospects for iron ore and with a debt service ratio of 38 percent, the country's external payments position would continue to be difficult. Although the authorities were making efforts to promote exports, those efforts had to be supported by appropriate debt rescheduling and increased inflows of resources. The Fund and the World Bank could provide financial assistance and encourage donors and creditors to support the authorities' adjustment efforts.

Mr. Alhaimus stated that the performance of the Mauritanian economy had weakened in recent years owing to the current severe drought, depressed external demand for iron ore, and expansionary domestic fiscal and monetary policies. The combined effect of those factors and the subsequent slowdown in real sector activity had given rise to significant domestic and external financial imbalances. In 1983, however, overall economic activity had picked up due to favorable external factors, mainly related to export demand as well as to domestic policy actions. The rate of real GDP growth had reached 6.6 percent, the rate of inflation had subsided to a low level of 5 percent, the overall fiscal deficit had moderated, and domestic credit expansion had slowed down markedly. The overall balance of payments also had improved, reflecting an impressive rise in exports of 39 percent and a fall in imports of 6 percent.

Unfortunately, developments in the external sector were expected to be less favorable in 1984, Mr. Alhaimus continued. Nevertheless, the Mauritanian authorities continued to be aware of the existing economic and financial imbalances and had been adopting a number of adjustment measures in the areas of fiscal, monetary, pricing, public enterprise, and exchange rate policies. Also, they were taking further needed action in the context of a comprehensive adjustment program that they hoped could be supported by a stand-by arrangement with the Fund.

The economic difficulties that Mauritania faced were basically structural in nature, Mr. Alhaimus considered, and the authorities recognized the need to tackle those difficulties in order to resume economic growth on a sustainable basis. Efforts in that area included the drafting of a comprehensive medium-term rehabilitation program for the period 1984-88 in collaboration with the World Bank, a collaboration that would focus on public investment as well as the public enterprise sector. The investment strategy had been reoriented to favor labor-intensive, quick-yielding projects in the agriculture and fishing sectors. The rehabilitation of the public enterprise sector was of particular importance in view of its significant role in the economy and its cost to the budget. Under the medium-term economic rehabilitation program, the authorities also intended to liberalize the pricing system, with a view to reducing subsidies and encouraging domestic production. Initial steps had been taken in October 1983 with the implementation of price increases for sugar, tea, and and rice. Furthermore, the Government intended to raise food grain prices.

The authorities had implemented several expenditure-saving and revenue-raising measures in 1984 aimed at eliminating the current budget deficit in 1985, Mr. Alhaimus noted. No salary increase had been budgeted, and appropriations for extrabudgetary expenditure and net lending had been drastically cut. Furthermore, measures had been taken to improve tax administration, broaden the tax base, and increase the tax rate. The expenditure reduction measures taken in April 1984 to deal with the consequences of the fall in revenues from the fishing sector and foreign grants were an indication of the authorities' determined adjustment effort. Furthermore, the authorities appeared to be determined not to finance the budget deficit by the use of domestic bank credit.

The Mauritanian authorities continued to pursue a restrictive credit policy that allocated no additional credit to the Government and restricted increases in credit to the private sector to 7 percent, Mr. Alhaimus continued. Efforts by the private sector to increase its access to foreign credit were being contained by the adoption of appropriate procedures. The authorities also were engaged in rehabilitating the commercial banks. The subscribed capital of the banks already had been increased, and further measures would be taken, based on the findings of the study financed by the Arab Monetary Fund.

The problems and prospects of Mauritania's external sector remained a source of concern, Mr. Alhaimus concluded. The overall balance of payments deficit in 1983--after taking account of debt relief--stood at 8 percent of GDP. Scheduled debt service was equivalent to 30 percent of exports, goods and services, and private transfers for the year. In 1984, the overall balance of payments deficit was estimated to widen further. The scenario prepared by the staff for the period 1985-90 pointed to a continued financing gap. That difficult situation essentially reflected the supply-side structural problem rooted in Mauritania's narrow productive base. Therefore, the adjustment effort required to address external imbalances was likely to involve hardships that could only be eased by favorable developments in export markets and further external assistance on concessionary terms. The authorities were aware of the hard choices they had to take and already had implemented several related policy measures: they had appreciated the ouguiya by 10 percent in 1984 and had begun to implement other measures to promote exports, limit imports, and reduce foreign borrowing. Those measures and policies were in the right direction and deserved the full support of the Fund.

Mr. Dallara stated that Mauritania was facing a severe economic and financial situation that needed to be addressed urgently and comprehensively. While some external factors, such as the drought and the slackening of world demand for iron ore, had accentuated the severity of the situation, deep-rooted structural problems, as well as inadequate domestic policies since the completion of the last Fund program, appeared to have been key factors in the worsening economic situation. The balance of payments situation, compounded by a tremendous debt burden, was clearly unsustainable on the basis of current policies and prospects. In that connection, he looked forward to being informed of the specific measures which the authorities intended to pursue in their medium-term economic rehabilitation program for 1984-88 and of the details of their plans in other policy areas that required immediate attention but were not included in the rehabilitation program.

The World Bank was playing an extensive role in the formulation of development plans and an investment program, Mr. Dallara noted. Like other Directors, he hoped that a World Bank-supported investment program could be adopted in the near future, as an investment program was essential to any comprehensive adjustment program. An economically rational investment program was critical not only to the strengthening of the balance of payments but also to attracting adequate donor support in the

years ahead. Unless economically viable and efficient investment was made in the agriculture and fishing sectors as well as other appropriate areas, a sustainable payments position in the medium term could not be realized.

The authorities intended to relinquish most public enterprises to private investors, Mr. Dallara observed. The authorities should concentrate on developing immediate and specific measures to restructure that sector in order to reduce losses and increase efficiency. Also, the authorities were moving toward a more market-oriented pricing policy, which was an essential step in removing price distortions.

The authorities should continue their efforts aimed at reducing current expenditure in order to address the fiscal imbalance, Mr. Dallara remarked. He would have appreciated more information on the specific measures to be followed in that area, particularly in the light of the need to eliminate domestic and external payments arrears. He encouraged the collection of domestic arrears and welcomed the authorities' determination to pursue a tight monetary policy.

However, the medium-term balance of payments prospects were worrying, and debt rescheduling alone--however lenient the conditions--clearly could not correct the severe imbalances, Mr. Dallara noted. Tremendous efforts would be required, including an investment plan, appropriate pricing and exchange rate policies, and the resolution of the disputes that had inhibited the growth of the fishing sector.

The authorities' actions in the area of exchange rate policy over the past year were welcome, Mr. Dallara stated, but it was regrettable that the present arrangement had ended in broken cross rates. Further action would have to be taken before any new adjustment effort could get under way. He would appreciate staff comment on what assistance it was providing the authorities in the area of exchange rate policy and what plans there might be to adopt a new exchange arrangement.

Mauritania should undertake a fundamental policy reorientation, Mr. Dallara concluded. The staff appraisal summarized major areas in which reform was needed: public financing, including public sector wage and employment policies; the banking sector; public enterprises and investment policy; pricing policies; and the external sector, including exchange rate policy. Therefore, the authorities should adopt a comprehensive plan, since any program to be supported by the Fund would need to include both decisive steps and plans for further measures in each of the areas mentioned if the program were to provide a basis for moving toward sound economic growth in the context of a sustainable balance of payments position.

Mr. Agah stated that the Article IV discussions held in August 1984 had pointed to the need for strong measures to adjust fiscal, monetary, and investment strategies, as well as public enterprise, pricing, and exchange rate policies.

Mostly an arid country, Mauritania's economy depended heavily on the mining sector, with its rich deposits of iron ore and phosphate, the fishing sector with its cyclical productivity, and the small agricultural sector along the Senegal River, which in recent years had been upset by the persistence of a prolonged drought, Mr. Agah observed. Between 1980 and 1982 the poor performance of the agricultural sector had been aggravated further by depressed demand abroad for iron ore owing to the recession in the world steel industry, while the recurrent drought had decimated Mauritania's livestock, compelling the country to import large amounts of food. With a drop in official foreign grants and the deterioration in the public enterprises' financial situation, the fiscal and balance of payments deficits had become unsustainable. By 1982, the rise in domestic and external arrears had reached 8 percent of GDP, and the growth in real GDP had fallen from 4 percent in 1980 to a negative rate of 2 percent. While exports were falling, imports had grown by 16 percent. At the same time, both fiscal and monetary policies had been expansionary, and the Government's deficit on a commitment basis, excluding grants, exceeded 25 percent of GDP, reflecting heavy government expenditure.

Despite the continued poor performance of the agricultural sector, the picture had improved slightly in 1983, Mr. Agah added, thanks mainly to favorable developments in the fishing, livestock, and public enterprise sectors. As a result, GDP registered a growth rate of 6 percent, compared with a negative rate of 2 percent in 1982. Improved prices for iron ore enabled the mining sector to grow by 8 percent in 1983, while the public enterprise sector, which was responsible for one fourth of GDP and one third of wage employment, was placed under strict government reorganization. The improvement in fish exports and the application of tight financial policies allowed for a resumption of economic growth, which was reflected in a slight improvement in the overall balance of payments position. The overall deficit, however, remained high at 13 percent of GDP on a commitment basis. At the same time, debt service payments, including repurchases to the Fund, were equivalent to 17 percent of exports of goods and services and private transfers.

The 1984-85 investment program elaborated by the Mauritanian authorities had taken into consideration past negative experience with investment based on the availability of external financing, Mr. Agah noted; consequently, investment had been cut from 25-30 percent of GDP to 18 percent of GDP in line with the country's absorptive capacity. Concomitantly, a rolling two-year investment program, revised annually, was to be adopted at the recommendation of the World Bank, which was also working on a medium-term program. In the fiscal area, expenditures were to be contained below their 1983 level, and revenues were to be increased through a broadening of the tax base and better revenue collection in the fishing, international trade, and mining sectors. Moreover, the pricing policy for imported and locally produced goods was to be liberalized.

A number of difficulties had attended the application of the 1984-85 adjustment program, Mr. Agah continued, and in the first half of 1984 the Government had implemented measures to reduce expenditures

and cut budgetary appropriations by 20 percent because of limited grants from abroad and less than expected receipts from the fishing sector. The overall budget deficit for 1984 was projected to be 12.5 percent of GDP. In the light of those difficulties, in 1985 the authorities planned to stabilize current expenditures, raise revenues, increase activity in the fishing sector through a new marketing arrangement sponsored by the Central Bank, and at the same time, restrict credit to the Government and limit the growth of credit to the private sector to 7 percent. They also intended to control private sector borrowing from abroad and to raise the interest rate to bring it in line with those in neighboring countries in order to discourage further capital flight. In the external sector, the balance of payments was expected to deteriorate following the slight improvement reported in 1983. Consequently, debt relief must be sought from donor countries. Finally, while the staff recommended an adjustment of the exchange rate to improve the competitiveness of the industrial sector and stimulate agriculture production, the authorities should be careful not to intensify further the social impact of higher domestic prices for imported foodstuffs.

Mauritania's economic recovery depended not only on a number of policy measures, Mr. Agah considered, but also on the support and understanding of the Fund and the World Bank. While Mauritania had strenuously carried out major reforms in various fields, it could not change the nature of the persistent drought, nor reverse the slackening tendency of world demand for trade, nor improve the terms of trade. Mauritania could be expected to streamline its financial policy, orient its investment toward quick-yielding productive sectors, and rehabilitate its large public enterprises to raise their overall contribution to the economy. But that would only be meaningful if donor countries, as well as international institutions, showed their support and understanding in the medium term. He commended the Mauritanian authorities for their determination and endeavors toward an overall economic rehabilitation in which the Fund, as well as the World Bank, could be expected to play a constructive role.

The staff representative from the African Department stated that there had been close cooperation between the Bank and the Fund in the formulation of an adjustment strategy that could be supported by the use of Fund resources. The Mauritanian authorities and the staff had discussed an adjustment program during a staff mission in August and again during the Annual Meetings, and a Fund mission was currently in Mauritania continuing those discussions. Furthermore, understood that the discussions between the authorities and the World Bank on a medium-term adjustment program had centered on a detailed investment program and a rehabilitation program for existing assets, especially in the public enterprise sector.

The World Bank had assisted the authorities in identifying five key enterprises as a test case for the overall rehabilitation of the public enterprises, the staff representative continued. The most important was the iron ore company (SNIM) in which the World Bank was financially involved; in May 1984, the Bank had had preliminary discussions in Kuwait

with co-lenders on ways to improve the financial performance of SNIM. In July 1984, the Bank and the co-lenders agreed in Paris that a consultant would pursue discussions with SNIM and propose specific measures, which included the reduction of staff, cost-cutting measures, and the replacement of equipment in the context of a new project to continue iron ore mining after the present mining deposit was exhausted. Other institutions like SONADER, the rural development company, was being restructured with the help of the World Bank and other co-lenders to streamline its operations and cut costs through the reduction of subsidies to growers and of certain large-scale irrigation activities. The World Bank also was heavily involved in the post office and the electricity supply company and, on World Bank recommendation, staff had been reduced and many cost-cutting measures had been implemented.

The World Bank mission that was currently in Mauritania in tandem with the Fund mission, the staff representative explained, was expected to review the progress made in formulating the investment program for the next two years. If the Bank gave its support to the program and committed itself to financial involvement, that would satisfy the staff's recommendation that such a program be a prerequisite for a Fund-supported program.

The economic rehabilitation program was also dependent upon debt rescheduling, the staff representative observed. All the staff scenarios indicated a substantial financing gap which would not be covered by rescheduling under the most exceptional terms; that raised the need for a cash grant of a magnitude that was not definitely known, but could range from $46-50 million in 1985. The scenarios, assuming favorable debt rescheduling and cash grants, pointed to serious financing difficulties through 1988.

Exchange rate policy was also essential to medium-term economic rehabilitation, the staff representative remarked. Previous Fund missions had made several recommendations that had been implemented, and the current mission had made a preliminary study which would form the basis for discussions with the authorities. Those studies suggested that a sizable, immediate exchange rate action be followed by a flexible exchange rate policy. The studies took into account the profitability of the export sector and the need to reduce both domestic and external fiscal imbalances.

As of August 1984, the authorities had not taken any specific measures for the rehabilitation program, the staff representative noted, but they had indicated the level of imports and had assumed a 4 percent decline in real terms in imports for 1985 and a 1 percent increase in 1986. No special measures had been formulated to eliminate the external payments arrears, although the authorities had indicated that once rescheduling had been obtained, a continued tight fiscal policy and financial discipline was expected to inhibit the further increase of arrears.

As to the specific technical assistance being provided by the Fund staff in the area of exchange rate policy, the staff representative from the African Department explained, a preliminary staff paper was providing

the basis for current discussions with the authorities; the paper dealt with the weights comprising the basket for the ouguiya, which the authorities were expected to change following the conclusion of the discussions.

Mr. Alfidja noted that discussions were currently under way not only between the Fund mission and the Mauritanian authorities but also between the World Bank and the Mauritanian authorities, with the objective of completing the negotiation of adjustment and investment programs. Bank/Fund collaboration in Mauritania had been closely synchronized, and the authorities believed that the two institutions would play a catalytic role in helping Mauritania to obtain badly needed debt rescheduling, as well as inflows of concessional assistance. Mauritania not only needed to restructure its economy and develop its potential but also had to survive adverse environmental and weather conditions. A reasonable stand-by arrangement with the Fund would help Mauritania to obtain the debt rescheduling and inflows of concessional financing needed to enable it to improve substantially economic performance in the medium term. Fund support should be dependent upon the adoption of a comprehensive program by the authorities; the significant progress in reforming the exchange rate was a step in the right direction and should be accompanied by additional measures to insure the success of that action.

The Chairman made the following summing up:

> Executive Directors generally agreed with the main points in the appraisal of the staff report for the 1984 Article IV consultation with Mauritania.
>
> Directors noted with deep concern the extremely difficult economic and financial situation which Mauritania has been facing for a number of years, as evidenced by depressed economic activity due in part to the intensification of the protracted drought, the continued deterioration in the budgetary position and in the situation of public enterprises, the unsustainable deficits in external accounts, and the continued accumulation of domestic and external payments arrears. Against this background, Directors agreed that a fundamental reorientation of economic and financial policies was urgently needed to address the present deep-seated domestic and external imbalances and to achieve medium-term balance of payments viability. Directors agreed that this would require prompt, comprehensive, and decisive adjustment measures, and expressed the hope that such measures could be supported by an active collaboration between the World Bank and the Fund.
>
> Directors welcomed the efforts being undertaken by the Mauritanian authorities to restructure their economy through a four-year economic rehabilitation program, which involves the major restructuring of the public enterprise sector and the elaboration of a detailed public investment program. But obviously more immediate and direct measures were needed.

Directors took note of the World Bank involvement through technical and financial assistance, and urged the authorities to seek the Bank's endorsement and financial support for their investment program. This was considered to be an important element for possible Fund involvement and also for the consideration by donors of Mauritania's request for exceptional financing and for balance of payments support. Directors urged the authorities to limit investment expenditure to external financing available on concessional terms.

Noting that the present magnitude of the public sector deficit was unsustainable, Directors urged the authorities to strengthen the overall budgetary position significantly through the implementation of revenue-enhancing measures and through a reduction in subsidies and transfers, improvement in expenditure control, and enforcement of tax administration. Directors urged that these policies be sufficiently strong to contribute to a prompt elimination of outstanding domestic and external payments arrears. Directors expressed concern about the critical situation of the banking sector, which requires urgent rehabilitation. They welcomed the study to that effect to be undertaken by the Arab Monetary Fund, and they urged the authorities to pursue a tight monetary policy.

Directors stressed the critical need to relax price controls and to follow realistic producer pricing policies, especially for agricultural production, in order to stimulate production and reduce distortions, and to take immediate measures to improve the operations and financial performance of the public enterprises, which was seen to be one of the major problems facing the Mauritanian authorities that required urgent and decisive corrective action.

Directors viewed with deep concern the difficult prospects for the balance of payments in the medium term and welcomed the authorities' efforts to promote exports, especially of fish and iron ore, and to limit nonproject imports through appropriate fiscal, monetary, and exchange rate policies. Directors urged the authorities to adopt an appropriate exchange rate policy and to maintain a flexible exchange rate policy in view of the large economic and financial imbalances and the need to promote the competitiveness of the Mauritanian economy. In this context, they recommended that the practice of broken cross rates be discontinued immediately.

Directors observed that the prospective resource gap was likely to exceed what could be covered by any active debt relief operation, and that Mauritania would thus need the continued cooperation of donor countries and multilateral aid agencies in addition to its own determined efforts to improve gross domestic savings.

Directors also noted that the authorities' ability to implement a suitable adjustment program could be greatly assisted by improved administrative capacity, a better statistical base, and further technical assistance.

It is recommended that the next Article IV consultation with Mauritania be held on the standard 12-month cycle.

The Executive Board then took the following decision:

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

2. Mauritania's exchange system involves broken cross rates and external payments arrears, as described in SM/84/257. The Fund urges the authorities to adopt effective policies that will enable them to eliminate the broken cross rates and external payments arrears and to liberalize the exchange system as soon as possible.

Decision No. 7867-(84/180), adopted
December 10, 1984

3. EXECUTIVE DIRECTOR

The Chairman bade farewell on behalf of Executive Directors to Mr. Yamashita on the conclusion of his service as Alternate Executive Director.

## DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/179 (12/7/84) and EBM/84/180 (12/10/84).

4. PANAMA - STAND-BY ARRANGEMENT - WAIVER OF PERFORMANCE CRITERIA

1. Panama has consulted with the Fund pursuant to paragraph 21 of the letter dated April 29, 1983 attached to the stand-by arrangement for Panama (EBS/83/102, Sup. 1) concerning the observance of the performance criteria on the overall deficit of the nonfinancial public sector and on the National Bank net credit to the nonfinancial public sector referred to in paragraphs 4(a)(i) and 4(a)(ii), respectively, of the stand-by arrangement.

2. The Fund finds that, notwithstanding that the limits on the overall deficit and the National Bank credit referred to in paragraph 1 above were exceeded on September 30, 1984, no further understandings are necessary and that Panama may proceed to make the final purchase under the stand-by arrangement. (EBS/84/247, 11/29/84)

Decision No. 7868-(84/180), adopted
December 10, 1984

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/263 (12/6/84), is approved.

APPROVED: September 10, 1985

LEO VAN HOUTVEN
Secretary