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August 1, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 83/30

The following correction has been made in the final minutes of Executive Board Meeting 83/30 (2/16/83):

Page 22: for "Decision No. 7324-(83/30), adopted
February 16, 1983"

read "Decision No. 7325-(83/30), adopted
February 16, 1983"

A corrected page is attached.

Att: (1)

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Department Heads

the position might have been easier. However, the Fund could not ignore the financial consequences to the country of a large project dominating its investment program.

The Fund had acted with caution, the Chairman continued. A World Bank staff member had joined the Fund's mission to ensure that all the relevant technical factors had been updated since an earlier Bank mission several years previously. The conclusion had been that the country could not support a port financed on the conditions offered. It was normal procedure for the Fund to place considerable weight on the technical judgment of the World Bank in such matters. The Fund had been unable to proceed with a first credit tranche drawing when the country's financial prospects were so doubtful.

The argument that the amount involved was small could be used on both sides, the Chairman stated. If it was small, the lack of it should not create a major problem for the country. On the other hand, the Fund had to maintain its credibility. In the present case, the country faced the prospect of seriously overburdening its debt position in coming years if it engaged in new project financing. The Fund could not put itself in the position of endorsing such policies. The staff believed that the authorities had been unwise to go forward with the port project on the conditions available. However, they had told the Fund that they could not renegotiate the conditions. It had been a serious dilemma for the Fund, but there had been no alternative but to tell the authorities that Fund assistance could not be provided in the circumstances. The views expressed by Mr. de Maulde and Mr. Alfidja would be noted.

The Chairman made the following summing up:

Directors were in broad agreement with the thrust of the views expressed in the staff appraisal for the 1982 Article IV consultation with the Comoros. Directors voiced their understanding of the difficult economic and financial circumstances of the Comoros, which were related, in part, to the federal structure and to the economic and geographic features of the country and were exacerbated by weaknesses in public administration. They noted the heavy dependence of the Comoros on foreign assistance, and they stressed the importance of the effective use of such assistance for structural adjustment. Recent favorable trends in agriculture were noted, and Directors welcomed the dispatch with which the authorities had moved to restructure the banking system after some of their lending policies had made that necessary.

Directors noted that the large overall fiscal and external current account deficits were excessive, notwithstanding the fact that a substantial portion was financed by external grant assistance, and they stressed the need to reduce them. In addition, foreign loans on concessionary terms had been increasing rapidly, with the result that the debt service ratio, even under optimistic

prospects for exports, would grow substantially in the next few years. Therefore, several Directors suggested that the authorities should be selective and cautious in the choice of investments and the pattern of their financing, especially with regard to the large infrastructure projects.

Directors also pointed to the scope for improving domestic resource mobilization through the introduction of new taxes, and they acknowledged the authorities' current efforts to improve expenditure controls and the financial position of parastatals. In that context, the Fund's technical assistance program was welcomed. It was also felt that an increase in interest rates would be appropriate, in light of developments in domestic prices and in interest rates of the franc zone countries, in order to strengthen the private capital account of the balance of payments.

The Executive Board then took the following decision:

1. The Fund takes this decision in concluding the 1982 Article XIV consultation with the Comoros, in the light of the 1982 Article IV consultation conducted under Decision No. 5392-(77/76), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the Comoros continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Decision No. 7325-(83/30), adopted
February 16, 1983

3. EQUATORIAL GUINEA - 1982 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1982 Article IV consultation with Equatorial Guinea (SM/83/4, 1/4/83). They also had before them a report on recent economic developments in Equatorial Guinea (SM/83/11, 1/18/83).

The staff representative from the African Department stated that, during a meeting of the member countries of the Customs Union of Central African States (UDEAC) held in Yaoundé in late December 1982, the Heads of State had agreed in principle to accept the application of Equatorial Guinea for membership in the Customs Union and related organizations. Pursuant to that decision, the Governor of the Bank of Central African States (BEAC), in a meeting with Fund management in Washington in late January 1983, had requested technical assistance from the Fund in preparing the way for Equatorial Guinea's membership in the BEAC. The Fund had agreed to provide such assistance. The exact form that membership would take, and the time for completion of the preparatory work, were yet to be decided.