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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/83

10:00 a.m., June 10, 1983

W. B. Dale, Acting Chairman

| Executive Directors | Alternate Executive Directors |
|---|---|
| A. Alfidja | W. B. Tshishimbi |
| J. de Groote | |
| B. de Maulde | |
| | C. A. Salinas, Temporary |
| R. D. Erb | J. C. Williams, Temporary |
| | S. R. Abiad, Temporary |
| | Jaafar A. |
| | T. Yamashita |
| R. K. Joyce | |
| | C. Robalino |
| | P. Kohnert, Temporary |
| | C. P. Caranicas |
| R. N. Malhotra | |
| | E. M. Ainley, Temporary |
| | T. de Vries |
| | H.-S. Lee, Temporary |
| G. Salehkhou | O. Kabbaj |
| F. Sangare | |
| M. A. Senior | |
| | I. Fridriksson, Temporary |
| | C. Taylor |
| | Wang E. |

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present

African Department: J. B. Zulu, Director; L. M. Goreux, Deputy Director; A. Basu, E. O. C. Brehmer, J. P. Briffaux, E. A. Calamitsis, F. d'A. Collings, A. B. Diao, R. A. Franks, I. C. Tandeciarz, H. R. Lorie. Central Banking Department: P. Ewenczyk. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; Y. Boutros-Ghali, S. Kanesa-Thasan. Fiscal Affairs Department: V. C. Thai. IMF Institute: K. Koffi, K. Zallé, Participants. Legal Department: J. M. Ogoola, J. V. Surr. Bureau of Statistics: B. Konan. Advisors to Executive Directors: C. J. Batliwalla, L. K. Doe, S. M. Hassan, L. Ionescu, I. R. Panday. Assistants to Executive Directors: H. Arias, J. Bulloch, M. Camara, T. A. Connors, M. K. Diallo, G. Ercel, C. Flamant, V. K. S. Nair, Y. Okubo, G. W. K. Pickering, E. Portas, Shao Z., D. I. S. Shaw, N. Toe, J. C. Williams.

1. IVORY COAST - 1982 ARTICLE IV CONSULTATION, AND REVIEW UNDER EXTENDED ARRANGEMENT

The Executive Directors considered the staff report for the 1982 Article IV consultation with Ivory Coast and the review under the extended arrangement for Ivory Coast, together with proposed decisions (EBS/83/96, 5/13/83: and Cor. 1, 6/8/83). They also had before them a background paper updating the analytical and statistical tables contained in the report on recent economic developments prepared for the 1981 Article IV consultation with Ivory Coast (SM/83/93, 5/24/83; SM/82/85, 5/6/82).

The Deputy Director from the African Department referred to the section in the staff report on monetary credit and policy, where it was noted that, following the adjustment made in the discount rate in April 1983, the money market rate in the UMOA (Union Monétaire Ouest-Africaine) had fallen below the money market rate in France. It was also noted that the difference of 1.5 percentage points between rates in France and in the UMOA was probably too wide and that the monetary authorities were considering the possibility of an upward adjustment. The staff had just been informed that the UMOA money market rates had been raised by 1 percentage point, effective June 10, 1983, bringing deposit rates to 12 percent for one day and 12.375 percent for three months. The monetary authorities had taken the occasion to reiterate their determination to follow a flexible interest rate policy, taking into account the development of rates in money markets abroad.

Mr. Alfidja made the following statement:

During 1976-80, Ivory Coast experienced buoyant economic activity that was triggered by the trebling of the export prices of cocoa and coffee during the early part of the period under consideration. This vigorous expansion virtually came to a halt in 1981 when the export price of coffee fell by 38 percent and that of cocoa fell by 29 percent, relative to their 1977 levels. The downturn in economic activity was exacerbated by the second large rise in oil prices that began in 1979. In light of these developments, the Government undertook in 1981 to implement a three-year Fund-supported program aimed at restoring domestic and external financial balance. The policies were designed to lay the foundation for durable progress in areas such as public expenditure control and investment project selection and implementation.

In 1981, substantial progress was recorded on the fiscal front as the overall public sector deficit fell to about 9 percent of GDP, representing a decline of nearly 4 percentage points relative to the 1980 outturn of 12.7 percent of GDP. Central to this achievement were cutbacks in capital expenditure, revenue having expanded less rapidly than planned. On the other hand, principally as a result of the decline in capital spending, real GDP fell while inflation slowed down somewhat. As regards the external sector, owing to a more rapid than programmed growth in export earnings due in part to the depreciation of the CFA franc and to a slowdown in the expansion of imports reflecting the decline in capital spending, the current account deficit fell below target by 1.1 percentage points to 14.4 percent of GDP. However, as a result of a large shortfall in public capital inflows, the overall balance of payments deficit rose to 6.4 percent of GDP, well above the 4.1 percent target. Developments concerning debt service and domestic credit expansion were in line with expectations.

In 1982, overall economic activity contracted further as, contrary to a revised program growth in real GDP by 3 percent, a decrease of 1.8 percent was recorded. As in the preceding year, this outturn reflected largely the substantially lower than planned level of capital expenditure. Thanks to this latter development and to the decline in real GDP, the overall fiscal deficit target of 8.8 percent has been met. On the external front, despite higher than anticipated interest payments, the current account deficit was CFAF 72 million lower than forecast, owing principally to higher export earnings. As a ratio to GDP, the 1982 current account deficit of 13.7 percent represented an improvement of nearly 2 percentage points relative to the revised target of 15.6 percent. Reflecting the noticeable amelioration in the current account, the overall balance of payments position was considerably stronger as the foreign capital inflow projections were virtually met. The debt service ratio evolved broadly as planned. Finally, in the monetary field, the slowdown in nominal GDP expansion and the Government's reliance on foreign borrowings instead of bank credit for budget deficit financing have contributed to a rate of domestic credit growth considerably lower than programmed.

The program for the third year reflects the Government's determination to further the economic adjustment under way, principally through a strengthening of the fiscal sector position. In this regard, the overall public sector deficit is forecast to decrease to 6.2 percent in 1983. If achieved, this outturn would represent more than a halving of the fiscal deficit over three years. The above fiscal target is to be reached by restraining expenditure growth and the policy measures include the replacement of the free housing benefit by a housing allowance designed to reduce the cost to the budget, the deletion from the payroll of the names of absentee employees, the reduction of education subsidies, and the tightening of scholarship eligibility. No general wage increase is envisaged for 1983. The profits of some public enterprises will be raised through an increase in the prices of the goods and services that they offer. The interplay of the planned budgetary adjustment, a recovery of economic activity, and the slowdown in inflation are expected to contribute to a further reduction in the current account deficit. However, largely as a result of higher amortization payments and the Government's decision neither to undertake commercial bank borrowings to finance the fiscal deficit nor to reschedule its foreign debt, the overall balance of payments deficit is forecast to worsen in 1983.

Gains made regarding the restructuring of the economy during the first two years will be furthered within the framework of an IBRD-supported program that will place emphasis on strengthening the project preparation and selection machinery, refining the package of fiscal incentives available to investors, and promoting export-oriented industries. The financial operations of major public enterprises will continue to be monitored closely.

All the performance criteria set since the beginning of the program in early 1981 have been met, with the exception of the ceiling on domestic arrears at end-December 1982. I fully share the staff view that a waiver should be granted because the increase in these arrears did not result from a higher level of government spending. Instead, it was due to previously unrecorded arrears and to a shortfall in foreign loans. Furthermore, the excess in question could have been accommodated through recourse to bank borrowing without exceeding the ceiling on bank credit. Finally, as stated by the staff, my authorities still intend to eliminate all domestic arrears by the end of the program.

I would like to stress the courage displayed by the Government in taking and implementing evidently unpopular measures that carry high social and political costs. My authorities have shown firmness in the face of disturbances that followed the sharp reduction in housing allowances. It is the Government's view that this evidence of their determination to take actions aimed at furthering the economic adjustment should not overshadow the need to protect the economic, social, and political fabric of the country.

I share my authorities' strong concern about the unfavorable medium- and long-term impact of some facets of the deflationary demand policies implemented during the past two years. Real capital outlays of the public sector decreased by an annual average of some 21 percent during 1980-82, hence contributing to a reduction in real total expenditure of 5 percent. This large fall in public sector capital spending could not be offset by the recession-crippled investment of the private sector. Largely as a result of this development, real GDP decreased in two consecutive years--1981 and 1982--by an average of 1.7 percent, following a 6.3 percent growth in 1980. The Government of the Ivory Coast remains committed to restraining the growth of total spending, in particular of slow-yielding capital outlays, inter alia, through a tightening of the criteria for selecting investment projects. However, my authorities are of the view that the recent large decline in real capital expenditure could have unfavorable effects, particularly for employment and the tax base. I might note here that during the last Board discussion on Ivory Coast, several Executive Directors observed, and rightly so, that in the course of the formulation and implementation of adjustment programs, sight should not be lost of the adverse impact of steady and substantial declines in real investment on future economic activity.

The Government of the Ivory Coast is fully aware of the need to take measures in order to redress the economic imbalances and is determined to continue the adjustment momentum. It is of the view, however, that the cost of the adjustment should be made more bearable to the economic units concerned through a spreading out over a reasonable time span of the various measures, especially in the fiscal and pricing policy areas; this in order not to place unendurable strains on the political, social, and economic structure of the country, as mentioned earlier.

To conclude, I would like to reiterate once again the strong commitment of my authorities to the implementation of the adjustment program under way. They are grateful to the Fund management for the support extended under the present arrangement and welcome the opportunity to undertake with the staff, in the near future, a review of policies under the present arrangement, together with discussions on the medium-term prospects for their economy.

Mr. Sangare observed that Ivory Coast had achieved sustainable growth and a viable balance of payments position over a considerable period. But, because the economy was vulnerable to changes in the international price for coffee and for cocoa, severe difficulties had emerged when a sharp decline had been registered in the price of those two commodities, which constituted the country's main exports. The result had been a worsening of the terms of trade for Ivory Coast, mounting external debt, a large budget deficit, and a considerable accumulation of payments arrears. That was the background against which the authorities had decided to enter into a three-year program in the context of an extended arrangement with the Fund.

The objective of that program, Mr. Sangare continued, had been to restore fiscal and external balance through a reduction in the public sector deficit, by, inter alia, eliminating investment projects with low rates of return and containing recurrent expenditures. The efforts of the Government to implement the program had produced positive results. However, GDP growth had been affected by the considerable reduction in public investment. With the slowdown in credit expansion and the reduction in the public sector deficit, the external current account deficit as a ratio to GDP had dropped by 0.7 percentage point in 1982. In general, the overall balance of payments position at the end of that year had been better than expected. Nevertheless, in the course of implementing the program, adverse developments had occurred, stemming for the most part from factors beyond the control of the authorities. Certain assumptions had not been borne out; for example, interest rates in real terms had increased much more than expected, the deterioration in Ivory Coast's terms of trade had been more severe than projected, and the growth in oil production had been much slower than expected at the end of 1980.

As a consequence, Mr. Sangare went on, government revenue had fallen short of the targets, and external debt had increased because the fiscal deficit and the repayment of domestic arrears had essentially been financed by foreign borrowing. He had noted with satisfaction that all performance criteria had been met, except the one relating to the reduction of domestic arrears. The authorities' efforts to reduce arrears had been frustrated by factors beyond their control, such as the tightening of conditions on lending to developing countries and the sharp deterioration of the country's terms of trade. But as the excess of payments arrears at the end of December had represented only 40 percent of the margin left under the December credit ceiling, he supported the authorities' request for a waiver of the December ceiling.

A summary of the 1983 financial program was presented in Table 13 of the staff report, Mr. Sangare noted. The prospects for the economy in general were good, and the objectives of the program were in line with the Fund's expectations. Among the few policy measures on which he would comment, he commended the authorities for the steps taken to increase general revenue by introducing new import taxes, welcomed the increase in the export price of coffee, and the revenue obtained from the new oilfield. He also welcomed the measures to reduce current expenditures, including the elimination of housing for civil servants, the reduction of higher education grants and of administrative costs, and a freeze on wages.

As to monetary policy, Mr. Sangare noted, the Government had resorted mainly to nonbank domestic borrowing for financing the budget deficit under the 1982 program, but, in 1983, it would rely almost equally on external and domestic bank financing. Growth in credit was designed not to have an inflationary impact, however; the increase was projected at 18 percent, and a ceiling--with a subceiling--was being established to exercise direct control over the expansion of credit. Interest rate policy had been flexible, reflecting changes in financial markets abroad, but despite an increase in deposit rates in Ivory Coast, customers were still reluctant to place large deposits with domestic banks. He was therefore still doubtful about the appropriateness or adequacy of interest rate policy as a tool in a developing country, particularly with respect to a currency used throughout a large monetary zone that provided other than financial benefits.

On the external side, Mr. Sangare welcomed the steps taken to reduce the current account deficit by 10 percent through tight domestic policies and the reduction of oil imports. The reduction in foreign borrowing referred to in the staff paper might have had some adverse effects on overall developments, but would be desirable insofar as the reduction of foreign debt was concerned. The exchange system continued to be free of restrictions, Ivory Coast being a member of a monetary union, where exchange systems were the responsibility of a group rather than of a single country.

In conclusion, Mr. Sangare stated, Ivory Coast had maintained a good record of cooperation and collaboration with the Fund and the World Bank. He could support the proposed decisions, in light of the development of the economy and of the successful achievements under the recent adjustment program.

Mr. Salehkhou recalled that during the mid-term review of the 1982 program for Ivory Coast, his chair, while welcoming the gradually emerging favorable trends in the economy, had expressed concern about the possibly depressing economic impact of continued declines in investment and spending on public works, especially with respect to growth and employment. Specifically, the question raised was whether the then 2.6 percent real growth target envisaged for 1983 would be consistent with the decline in real investment projected for that year. In fact, it was clear from the staff report for the 1982 Article IV consultation that the curtailment of government investments, including those on roads and public works, had had an adverse effect on economic growth so that, far from rising, GDP was unlikely to be higher in 1983 than in 1980. Furthermore, apart from a reduction in the public finance deficit, it had become clear that the other two main objectives would not be met, namely, a significant reduction in the current account deficit and the elimination of payments arrears by 1983.

Three factors were mentioned in the staff report as having contributed to the deterioration on the external account, Mr. Salehkhou continued: interest rates in real terms had increased much more than expected, the terms of trade had been more adverse, and the rise in oil production had been smaller. As a matter of fact, the first two factors were not new but had existed from the very inception of the program. During the mid-term review, the expectation was that interest rates would decline or at least remain constant. By all accounts, they had indeed done so for the past nine months, at least Eurodollar interest rates. But despite a fall in interest rates, the depreciation of the exchange rate and large foreign borrowings in 1982 had substantially raised the level of interest payments. Some gains had been recorded on the external front: the current account deficit as a percentage of GDP had declined slightly in 1982, and the overall balance of payments deficit had declined even more steeply, due to the considerable increase in foreign borrowing. However, despite two consecutive years of depreciation of the real effective exchange rate, exports had remained unresponsive.

There were some positive features in the 1983 program, Mr. Salehkhou added, which he hoped would strengthen the real sector of the economy. If properly implemented, the provisions of the second Structural Adjustment Loan from the World Bank relating to reforms in the industrial sector should further improve the efficiency of public enterprises. The process would be gradual, however, and he could not share the optimism of the staff in projecting a dramatic increase in the net operating profits of selected public enterprises in 1983, as detailed in Table VI of Appendix IV to the staff report. Much had been staked on the projected rise in the prices of coffee and cocoa, the growth of oil revenue, and the structural reforms designed to reduce the overall deficit of public enterprises. The reforms would certainly take time to implement, and expectations of an early favorable response were likely to prove sanguine. One hopeful sign was the development of public savings, which were expected to double in terms of GDP. However, capital expenditure was expected to decline in 1983.

Other features of the 1983 program, those related to the performance criteria on credit and the domestic assets of the banking system, the reduction in arrears and external borrowing, were helpful and attainable, Mr. Salehkhou considered. As for the assumptions in the 1983 program, as mentioned on page 21 of EBS/83/96, that relating to real GDP growth was on the high side, and the terms of trade loss would be more pronounced than assumed. For the years 1984-87, any assumptions or projections would necessarily be highly tentative.

Mr. de Vries expressed his support for the proposed decisions, in full awareness of the determination, courage, and indeed wisdom of the authorities in carrying out their adjustment program. The global economy had veered badly off course in the late 1970s, and the adjustment taking place was even more painful for the weaker countries than for the stronger, an inevitable outcome in an imperfect world.

The Executive Board had reviewed a number of programs, Mr. de Vries recalled, where it had been argued that the world economic situation was the real reason why the national economy had also been blown badly off course, even though domestic slippages had occurred. He was skeptical about such arguments, especially as far as the Ivory Coast was concerned. The authorities had taken exceedingly difficult measures that had successfully kept their domestic program on track, and had decided wisely to allow for some fallback in achieving the original objectives in the external sector because to do otherwise would have been counterproductive. Among a number of interesting charts in the staff report, he had noted from Chart 2 that the overall deficit of the public sector had remained on target. But the hard measures that had had to be taken were not visible, as moreover interest rates rose and the terms of trade worsened. It was apparent from Chart 3 that the trade balance had been better than originally expected, although the current account balance had been worse, again a matter of interest payments. The true nature of the difficult external situation was revealed in Chart 4, which showed that the debt service ratio had unfortunately risen rapidly instead of falling as projected, largely as a result of the denomination of the external debt in U.S. dollars and in Swiss francs and of the depreciation of the CFA franc against those two currencies.

He had noted the authorities' intention of following a flexible interest rate policy, Mr. de Vries went on. He had also taken note of the staff's arguments in favor of granting a waiver on domestic arrears, which he was prepared to support, although he hoped that the authorities could reduce arrears and avoid the rescheduling of external debt as well.

In conclusion, Mr. de Vries remarked, although he agreed with and shared the concern of Directors who had spoken about the social and economic costs of the adjustment program in Ivory Coast, he repeated that he saw no practical alternative in an imperfect world. Indeed, other options would end up by imposing even greater costs on the country in the medium term. He joined the authorities in trusting that the terms of trade would turn around and help them to improve their situation.

Mr. de Maulde said that he was in broad agreement with the staff appraisal and fully supported the proposed decision. He would thus stress only some elements of particular significance in an assessment of Ivory Coast's economic and financial performance. To begin with, after Gabon, a net oil exporter, Ivory Coast had the highest GDP per capita in sub-Saharan Africa, and was one of the few African countries that had laid the foundations for balanced economic development. Ivory Coast had succeeded in diversifying the private sector; in addition to timber, cocoa, and coffee, it had become a significant producer of palm kernels, rubber, cotton, sugar, and pineapples. The country had also developed a sizable secondary sector, with a number of small and medium-sized enterprises constituting an integrated economic fabric. As a result, nontraded services had remained a small part of GDP, at less than 12 percent in 1982.

Those commendable achievements rightly deserved to be qualified as a success story, not only in West Africa as stated in the staff report, but also in the whole of sub-Saharan Africa, Mr. de Maulde considered, the more so that Ivory Coast's endowment with natural resources seemed less generous than that of many other neighboring African countries. Against such a background, the difficulties encountered by the country since 1980 had been essentially, as was underscored in the staff report, the consequence of adverse external developments completely beyond the control of the authorities.

First, Mr. de Maulde observed, since 1978 Ivory Coast had suffered from a continuous decline in the terms of trade as a result of the second oil shock and the world recession that had followed. Taking 1977 as the base year, the cumulative decline had amounted to 43 percent in 1983, and together with the reduction in export volume, had brought about a much smaller trade surplus than might have been expected. Second, the large increase in interest rates and the related appreciation of the U.S. dollar over the past three years had caused debt servicing to exceed the projections by CFAF 234 billion, or about 30 percent more than originally anticipated, for 1981 through 1983.

It was evident that a reversal in those adverse trends would permit a quick and dramatic improvement in Ivory Coast's external situation, Mr. de Maulde stated. In that respect, the recent increase in international prices for cocoa seemed encouraging, but it was an anticipated shortfall in production and export volume that had triggered the price increase. He would therefore be grateful if the staff could comment on the overall outcome with respect to the projected value and volume of exports in 1983.

To be sure, Mr. de Maulde remarked, as illustrated on page 12 of EBS/83/96, the external situation remained fragile, with the debt service ratio projected to increase slightly to 41.1 percent in 1986 before beginning slowly to decline. But the Ivorian economy had been hit by the world crisis at a time when the level of investment had been high and partly financed by external borrowing at variable rates, which also explained the magnitude of the external imbalance. Should the world economic recovery gather strength in the months and years to come and should real interest rates fall to more sustainable levels, those previous investments would help Ivory Coast quickly to take advantage of the new opportunities that would materialize; they would certainly prove more profitable than they had been for the past three years owing to depressed world prices for primary commodities.

Nevertheless, it remained true that the length and the worsening of the world recession, unforeseen at the time the extended arrangement had been negotiated, had made the adjustment much longer and far more painful than had then been envisaged, Mr. de Maulde commented. He agreed with Mr. de Vries that Ivory Coast had rightly addressed the problem by continuously adjusting its policies in order to cope with the deteriorating external environment. Its attitude had allowed the program to remain on track, a unique performance, at least in Africa: the fact that Ivory Coast was the only African country able to maintain an extended arrangement with the Fund spoke for itself.

As illustrated in the staff report, Mr. de Maulde observed, the fiscal effort had been of particular importance, and demonstrated the authorities' commitment to reducing the budget deficit to 6.2 percent of GDP in 1983, in line with the original projections of the program. That had been achieved by means of various fiscal measures, and by severely restraining current and capital expenditures, at the risk--which had in fact materialized in 1981 and 1982, as noted by Mr. Salehkhou--of a decline in real GDP. However, as the cuts in capital expenditures had mainly concerned infrastructure projects, the medium-term growth prospects of the Ivorian economy should not be jeopardized. He felt sure that the authorities would continue to exercise the same caution in the years to come in order to direct available resources to the most productive investments, particularly in terms of potential foreign exchange earnings.

As for current expenditures, Mr. de Maulde added, the Government had not hesitated to adopt a number of additional measures. For instance, the retirement of civil servants at age 55 was being enforced, grade promotions were not to result in higher pay in 1983, the cost of the educational system had been curtailed, and the free housing system had been suppressed. The recent social unrest triggered by that last measure, which had been mentioned by Mr. Alfidja, and the manner in which the problem had been addressed, gave further evidence of the determination of the authorities.

Together with the Fund and the World Bank, France had full confidence in the economic future of Ivory Coast and supported the adjustment effort, which should induce the international community to provide the support that Ivory Coast undoubtedly deserved. As for France, in addition to its traditional project lending, the Caisse Centrale de Coopération Economique had just decided to extend to Ivory Coast a loan of F 500 million to help rehabilitate a number of public enterprises.

Mr. Taylor said that he too could support the proposed decisions and endorse the staff appraisal. Ivory Coast was another example of a country that was making good efforts to adjust, that had taken almost all the corrective measures that the Fund had asked for, and yet was not making as rapid progress toward correcting its external imbalance as could have been hoped. He was prepared to accept the staff's argument that the slower progress in the balance of payments field was due largely to factors outside the authorities' control, implying a prolongation of the period of external adjustment rather than a change for the worse in the trend. He also accepted that the thrust of the authorities' policies was broadly appropriate. Although he sympathized with Mr. Alfidja in his worries, and had taken note of his remarks about the stresses and strains that those policies were understandably causing in the economy, he nevertheless felt that the right course in the circumstances was to persist with the policies and to strengthen them where necessary.

He felt bound to add, Mr. Taylor went on, that the repertoire of available policy instruments was unduly narrow. He wondered whether, for the kinds of reasons mentioned by his chair and others during the Board's recent discussion of currency unions, the UMOA's institutional arrangements were not unduly restrictive of the authorities' policy scope. At any rate, he certainly agreed with other Directors that courageous measures had been adopted and commendable progress made in restoring budgetary discipline.

As Mr. de Maulde had commented, Ivory Coast was the only African country managing to continue with an extended arrangement, Mr. Taylor noted. In view of the reasons given on page 17 of EBS/83/96 for the breach in the end-December 1982 criterion on the reduction of domestic arrears, a waiver seemed to be in order. He was pleased that the authorities intended to stick with their original objective of eliminating those arrears by the end of the program, and trusted that they would be successful.

The Government's objective of not financing the 1983 budget deficit by commercial borrowing from abroad was laudable, Mr. Taylor considered, and the wish to avoid debt rescheduling if at all possible was also understandable. However, as he believed the authorities themselves recognized, those were onerous objectives that would require continued stringent domestic policies, not least because of the limited scope for more direct corrective action in the external sector. The projected improvement in the current account depended greatly on the assumptions about rising coffee and cocoa prices and the increase in domestic oil production, as had already been observed. To the extent that the staff's estimate might prove too optimistic, or the projected offtake from the new oilfields less than expected, the magnitude and thrust of the adjustment effort might even have to be intensified somewhat.

The prospect that the debt service ratio would remain at about 40 percent until 1987 was worrying, Mr. Taylor remarked. Again, the deterioration had been due in large part to the effective depreciation of the CFA franc, reflecting its link to the French franc, and was possibly another specific instance of the implications of belonging to a monetary union that left little scope for the authorities to follow an independent exchange rate policy. The size of the debt service burden confirmed the wisdom of Ivory Coast in not seeking to borrow further on world capital markets, at least for the time being.

He had two specific points to make on fiscal policy, Mr. Taylor went on. First, he wondered whether public sector enterprises could not make a bigger contribution to the planned reduction of the fiscal deficit. The burden of expenditure restraint seemed to fall heavily on personnel-related measures, as well as on investment projects. He hoped that the audits being carried out under the auspices of the World Bank would highlight additional possibilities for improving the finances of the parastatal enterprises. Second, he would stress the need to refrain from nonproductive public sector projects. In that respect, he welcomed the assurances given by the authorities that the transfer of the administrative capital would not involve large-scale expenditures, a task that would call for remarkable ingenuity and discipline.

Although it might be premature to think in terms of a new arrangement for Ivory Coast, Mr. Taylor considered, even on the assumption, which was a fair one, that the present program would be successfully completed, it was obvious that a long path of adjustment stretched ahead. Thus, it would not be surprising if the authorities felt the need for further support from the Fund. In making its balance of payments projections, the staff had assumed that further assistance would take the form of a two-year stand-by arrangement, which seemed practical as a working assumption. If the present arrangement were followed by a new multiyear arrangement, he would look to the incorporation within it of a particularly strong adjustment program; given the limits on the policy instruments available to the authorities, such a program would have to concentrate on strong fiscal restraint and firm credit control. The action taken already to readjust interest rates made it hardly necessary for him to stress the need for such action, and he was glad to see that the authorities intended to pursue a flexible interest rate policy.

Mr. Kohnert stated his endorsement of the staff's appraisal and support for the proposed decision. In the course of the present program under the extended arrangement, the authorities had reacted courageously when external factors had turned out to be less favorable than expected. As previous speakers had noted, major fiscal adjustments had been made, so that the quantitative performance criteria had been met, except for the criterion concerning domestic payments arrears. He had noted with satisfaction from the staff appraisal that the increase in domestic arrears had largely been eliminated earlier in 1983 and that the Government intended to settle them all before the end of the program. But as others had already mentioned, the improvement in the public sector budget was not expected to provide a basis for a marked improvement in the balance of payments.

The notable progress made by Ivory Coast in gaining self-sufficiency in its supply of petroleum had led to the virtual disappearance of that item from the import bill, Mr. Kohnert remarked. Despite that positive development, however, the fulfillment of one major objective of the program had had to be postponed, namely, the halving of the external current account deficit and achievement of a sustainable overall balance of payments by 1983. He would emphasize the importance of the statement by the staff in its appraisal that "Ivory Coast could service its debt without having to reschedule it, provided strong adjustment policies were pursued for several consecutive years." That quotation underlined the fragility of the present situation and indicated that an even stricter policy than had been planned would have to be implemented if developments in the external sector were less favorable than those presented in the staff report.

Referring to two of the uncertainties that the staff recognized would have to be faced by Ivory Coast in coming months and years, and that were related to factors beyond the authorities' control, Mr. Kohnert mentioned first the inability of Ivory Coast, as a member of the West African Monetary Union, to pursue an independent exchange rate policy. The representatives of Ivory Coast reportedly believed that the exchange rate arrangement was tailored to their needs. As Mr. Taylor had already pointed out, that view was not supported by the latest changes in the debt service ratio. The staff had pointed out that the continued depreciation of the CFA franc against the U.S. dollar had not led to an improvement in the debt service ratio because more than half of Ivory Coast's debt service was denominated in U.S. dollars and more than 10 percent in Swiss francs, compared with only one third in French francs. The favorable effect of the devaluation on the trade balance had thus been more than offset by higher debt servicing costs. He hoped that the assumption that the exchange rate would remain unchanged for the coming year proved correct so that that adverse development would not be repeated.

The second uncertainty facing Ivory Coast concerned the forecast of export revenues from exports of cocoa and coffee, Mr. Kohnert added. Those two commodities not only affected the performance of the trade account to a large extent, but also government revenues. Public sector revenue was expected to rise by 17 percent in 1983, partly due to the estimated increase in the profits of the Agricultural Price Stabilization Fund, based on the assumption that exports of cocoa and coffee would generate an increase in export earnings of 9 percent in 1983, mainly resulting from higher prices. He was more pessimistic than the staff about the development of prices for those two commodities; contracts in the futures market indicated a 10 percent decline in coffee prices over the next 15 months, and cocoa prices were expected to increase by only 3 percent over the same period. If those were the prices that turned out to prevail, even the modest improvement in the current account foreseen for 1983 could be jeopardized.

In sum, Mr. Kohnert considered, the authorities would have to be prepared for a further tightening of domestic demand policy. In that connection, he recognized the strong measures taken on the expenditure side of the public sector budget in order to curb current outlays in particular. There did seem to be some room for maneuver to offset a possible shortfall in tax revenues or in the profits transferred from the Agricultural Price Stabilization Fund by improving the profitability of public enterprises. In any event, the authorities should consider with great caution any projects yielding only a low rate of return in the short run, including investment in connection with the transfer of the country's administrative capital, where he welcomed the authorities' commitment to minimize outlays.

Mr. Erb considered that given the adverse exogenous developments since the extended arrangement had originally been approved, the fact that the original target for the public sector deficit was still expected to be met for 1983 was a significant achievement for which the Ivorian authorities should be commended. However, the external position remained a major cause for concern because its improvement continued to lag behind original program assumptions. Although it was possible to question some of the assumptions and specific details of the projections in the staff report, on balance, the comprehensive medium-term analysis by the staff was a valuable contribution to understanding the factors affecting the prospects for Ivory Coast; such an approach was particularly warranted in view of the authorities' intention to request further Fund financing. It would be appropriate in any future discussions in the Executive Board, as had been mentioned already, to examine closely whether or not the pace of overall adjustment assumed in that medium-term analysis would be sufficient for the period beyond 1983.

He had three questions to raise concerning the medium-term prospects, Mr. Erb continued. First, with respect to public finances, he had noted from Table 6 that tax revenues were expected to increase by 57 percent from 1982 to 1987, whereas imports would increase by only 19 percent. Since customs duties historically accounted for over 50 percent of tax revenues in Ivory Coast, he wondered whether certain structural changes in the tax system had been assumed in those projections, or whether all of the revenue increase was expected to come from the petroleum sector. He would welcome the staff's views on the nature and timing of any proposed changes in the tax system to overcome what the staff had described as the lack of buoyancy of tax revenue. He recalled that at the time of the mid-term review, he had pointed out that the authorities had chosen not to implement one recommendation of the Fiscal Affairs Department, namely, the extension of the TVA and TPS tax base to the modern commercial sector (EBM/82/127, 9/27/82; EBS/82/172, 9/3/82). Furthermore, he had noted from page 26 of the staff report that the Ivorian Government imposed a 20 percent service tax on bank lending; that might of course serve as a disincentive to borrowing for consumption, but it could also be a disincentive to investment.

His second question relating to the medium term concerned the domestic production of petroleum, Mr. Erb remarked. His authorities were concerned that the Government still tended to be too optimistic, and he wondered whether potential crude output from known reserves would reach the levels implied in the longer-term forecasts. His final question was whether or not the procedures for pricing agricultural products adequately reflected, over time, developments in producer costs and world or regional market prices.

The macroeconomic indicators reported in Table 8 of EBS/83/96 revealed disturbing trends, Mr. Erb said. For instance, as a percentage of GDP, consumption had increased annually while investment had declined, at least through 1982. Gross domestic savings had also shown a steady decline. It would seem imperative for the authorities to carefully reexamine their policies and adopt measures to ensure that those trends were reversed in 1983 and beyond. The estimated outturn for 1982, as shown in Table 8, represented for many of those factors a meaningful deviation from the projections for 1982 provided in the staff paper on the mid-term review. Perhaps the staff could explain more fully the factors underlying those trends and suggest policy areas where steps could be taken to provide more incentives to savings and investment over time.

As for the 1983 program, Mr. Erb continued, he welcomed the substantial involvement of the World Bank in the Ivory Coast, as evidenced by the fact that discussions of a second Structural Adjustment Loan were well advanced. Any further comments that the staff or Mr. Alfidja might have on the World Bank's strategies and objectives in the Ivory Coast in the future would be welcome.

As for fiscal policies, Mr. Erb commended the authorities for their decisions designed to reduce current expenditures. The reforms initiated in education policy were being continued and strengthened. It would be helpful to have comments from the staff or Mr. Alfidja on the result of the examination of the education system by the Human Resources Committee that was to have been set up in September 1982; that matter had figured prominently in the mid-term review, and for their part, his authorities continued to believe that the relevance of the educational system to the needs of the country was a key issue.

On monetary policy, Mr. Erb joined other Directors in encouraging the Ivorian authorities to impress upon the UMOA the need for pursuing a flexible interest rate policy. The announcement by the staff of a 1 percent increase in the discount rate was welcome. He hoped that greater attention would be paid to setting interest rates that would encourage a higher degree of savings in the future, the level of gross domestic savings having fallen significantly over the past few years.

To conclude, Mr. Erb said that he was in general agreement with the staff appraisal and supported the proposed decision.

Mr. de Groote declared that Ivory Coast had certainly had one of the few successes under an extended arrangement, and was one of the few countries that could be considered for further such assistance from the Fund in the future. The authorities had to be highly commended for having been able to carry out their program and adjust in the face of exceptionally difficult circumstances. He would limit his observations to the importance of adjusting real incomes; the necessity for further structural adjustment, especially in the field of investment; the need for further fiscal adjustments; and the importance of debt service.

The importance of real income adjustment had already been stressed by Mr. Salehkhou, Mr. de Groote remarked. Although it was true that the growth of real GDP had been adjusted downward, that adjustment had been limited to a remarkable extent, in contrast to what had happened in many other African countries, even though Ivory Coast's terms of trade had fallen by about 45 percent over the past five years. He would like to think that that was due to the speed with which the authorities had undertaken a program encompassing a great variety of measures in different areas of economic policy, enabling them to limit the impact of the terms of trade on real income. Certainly, most neighboring countries producing similar commodities had shown a much greater annual loss of real income. One explanation might be the much broader diversification of output in Ivory Coast, which had therefore been able to better withstand the adverse development in the terms of trade. Another explanation might be the importance of the manufacturing sector, which though limited in size was larger than in many other African countries.

Second, Mr. de Groote commented that, with respect to the need for further structural adjustment, especially in the area of investment, the World Bank had pointed out many times in different reports on Ivory Coast that the authorities would probably have been obliged to review their investment program even if they had not been faced with such important reductions in the export prices of Ivory Coast's main export commodities. Investments in tourism and perhaps in the oil sector as well had probably been ambitious. Further improvement was called for in identifying and preparing projects, and the authorities would no doubt have to continue, with some urgency, to diversify investment. He strongly supported the World Bank's view on the need for further action in those respects.

Third, Mr. de Groote commented, it was noteworthy that the deficit of the public enterprises would be reduced by means of appropriate pricing measures and by the elimination of subsidies. He welcomed especially the politically courageous decision to increase the price to local processors of edible oils and cotton seeds. The step-by-step approach should be continued in the medium term. Taxes would probably have to be increased, and tax collection improved. But despite the statement by the Minister of Economy and Finance in his letter in respect to taxes, he himself wondered whether the tax measures did not figure too importantly in the program for the short and medium term; the authorities might have found it advisable to do more to eliminate subsidies before attempting to improve tax collection at a later stage.

His fourth point related to the importance of Ivory Coast's debt service payments, Mr. de Groote added. As could be seen from the appendix table on page 82 of the report providing statistical background material, the burden was extremely heavy, but the country had met its obligations. Ivory Coast had asked for no exceptions with respect to the repayment of either capital or of interest. It seemed absolutely necessary once in a while to commend countries whose behavior contributed to the good functioning of the international financial system. After all, considerable attention was paid to countries undertaking debt rescheduling negotiations, sometimes with the active intervention of the Fund. Yet there were numerous countries in the developing world that respected their debt service obligations, as the overall figures showed; he had in fact been surprised to note that in 1981 and 1982, developing countries had paid off the equivalent of 10 percent of the principal of their total foreign debt--short term, medium term, and long term--indicating moreover that the maturity of their indebtedness was also short, and that the involvement of the lenders was not a long-term one.

Thus, Mr. de Groote continued, he was led to raise an issue that he had previously mentioned. The process of adjustment in Ivory Coast would certainly have been greatly facilitated, and the country could have kept more resources for structural adjustment, if the creditors of the country had agreed to relate the repayment of debt to changes in the prices of export commodities: repayments would accelerate when prices increased, and be spread out over time when export proceeds fell. The Fund's own experience with the compensatory financing facility would show how such repayment schedules could be formulated. Commercial banks did not expect private companies to repay loans in fixed amounts, irrespective of their profit performance. Furthermore, some foreign companies with contracts to manage mines in certain African countries had their profits related to fluctuations in the price of the product being exported. He felt quite certain that for countries with an excellent credit record, like Ivory Coast, the adjustment process would have been furthered, and the banks and other creditors would have obtained much faster reimbursement, if such a system had been operating. It was necessary to work with imagination and find new ways to make adjustment easier for developing countries that were now confronted with great internal problems simply because the industrial countries had rightly adopted deflationary policies that wrongly relied too much on monetary measures.

On another general point, Mr. de Groote noted, it would be wise for the Fund, in looking at the situation of countries like Ivory Coast, as well as in its Annual Report, to use the word "inflation" with great care. Not every increase in price was inflationary; moreover, rising prices for primary commodities would bring with them increases in income for the developing countries and thus for the industrial world. Rather than alluding to the possibility of the recurrence of world inflation if primary commodity prices increased as the world economy recovered, the Fund would do better to refer to the restoration of income levels. For instance, in 1983 Ivory Coast was exporting coffee at the same price in real terms as in 1938, whereas its imports of equipment were costing it, in real terms but deflated, about four times as much, on the basis of world price indices for primary commodities and industrial commodities.

Finally, Mr. de Groote remarked, in considering cases like that of Ivory Coast, the Fund had to be convinced that no other policy could have led to a better performance, a point mentioned by Mr. de Vries. The Ivorian authorities could have done no more, except perhaps make marginal improvements in the fiscal system. In general, care should be taken not to leave the impression that domestic policies could fully correct severe economic and financial difficulties due to external causes.

Mr. Joyce joined other Directors in commending the authorities of Ivory Coast for their determined efforts, which had borne fruit in almost all respects, despite the deterioration of the terms of trade and other problems. Those efforts had been particularly notable on the fiscal side, which might have had to bear a greater share of the burden of adjustment than desirable because Ivory Coast was a member of a currency union.

GDP growth had been negative for the second year in a row in 1982, a difficult year for Ivory Coast, Mr. Joyce noted. In addition to the worsening terms of trade, the authorities had had to contend with significantly higher interest costs, attributable to the weakening of the French franc and hence of the CFA franc against the U.S. dollar and certain European currencies. Those developments, together with the inclusion of arrears unrecorded at the beginning of the program and the shortfall in foreign borrowing, had led to higher domestic arrears than had originally been specified. Under the revised program for 1983, the rate of growth of GDP was expected to be positive, although lower than envisaged. In addition, a further deterioration of the terms of trade was expected. Consequently, the current account deficit of the balance of payments, and indeed the overall deficit as a percentage of GDP, would be higher than projected. Even so, much would depend upon the projected strengthening of commodity prices in world markets. Nevertheless, it was worth emphasizing that the revised forecasts did envisage an improvement in Ivory Coast's balance on current account; the weakening of the overall balance was the result of the authorities' decision not to seek nonproject commercial financing abroad, probably a wise decision in the circumstances.

Looking to the future, Mr. Joyce took note of the staff's view that the authorities intended to pursue their adjustment efforts through 1984 and 1985, and indeed until a viable balance of payments position was achieved. Like other Directors, he was concerned about the high debt service ratio projected. Not much could be done about it, and again, the magnitude of the burden depended in large part upon exchange rate movements.

He shared Mr. Alfidja's concerns, in particular those about the cutbacks and slowdowns in investment and in the development program, with all the implications for future economic development and for social consequences, Mr. Joyce went on. Yet he had to confess that Mr. de Vries was right: there were no other options for the authorities but to persist with their adjustment effort, trying to manage it in a way that avoided adverse economic and social consequences to the extent possible.

Consideration would have to be given to the necessity of a new Fund arrangement with Ivory Coast, Mr. Joyce added, as Mr. Taylor and Mr. de Groote had noted. The present was not the right occasion for taking up the matter of further use of the Fund's resources, which would in fact present problems, because Ivory Coast's drawings on the Fund so far left little room for maneuver, at least under the present quota limits on access. But the magnitude of the adjustment already made, and the authorities' determination to pursue the adjustment program, suggested that Executive Directors would have to view favorably any request for further Fund assistance.

In conclusion, Mr. Joyce said that he had no difficulty in supporting the proposed program for 1983, and endorsed the recommendation that Ivory Coast be granted a waiver with respect to the nonachievement of the performance criterion and with respect to arrears for the end of 1982.

Mr. Salinas observed that Ivory Coast was another example of a country that, encouraged by the international economic conditions prevailing in the late 1970s, had embarked on a large program of public investment and measures of expansion--financed to a great extent by external loans--and that had been faced, since 1980, by a worldwide recession, forcing it to lower its expectations and adjust to new international economic conditions.

The exceptional magnitude of the latest cyclical fluctuations in world prices of coffee and cocoa, which accounted for over half of Ivory Coast's export earnings, and increasing difficulties in maintaining the level of foreign capital inflows, together with a general relaxation of budgetary discipline, had finally led to a wide deterioration of both the domestic and external sectors of the economy, Mr. Salinas noted. The authorities of Ivory Coast had not been alone in believing that the decline in commodity prices and their external financing difficulties were only temporary. Adjustment had therefore been postponed until late 1980, by which time external debt had increased considerably, and large domestic payments arrears had emerged. Under those new circumstances, the authorities had decided to enter into a three-year program in the context of an extended arrangement with the Fund, the major objectives of which were to sharply reduce the public deficit, as well as the current account deficit, to eliminate all payments arrears, and to achieve balance of payments equilibrium.

Ivory Coast's performance under the extended arrangement had been satisfactory, Mr. Salinas commented, even though the external targets were not being met with respect to the current account deficit and the debt service ratio. Those departures seemed to have resulted largely from factors beyond the control of the authorities, namely, the worsening of the terms of trade, the lower than expected growth in oil production, the larger than expected increase in real interest rates, and the depreciation of the CFA franc against the U.S. dollar. All in all, those four factors--particularly the last two--had led to a deficit on current account exceeding the original 1982 projection, in spite of the reduction in imports and the bigger than projected surplus on the trade balance. Insofar as the authorities did not intend to borrow on the world capital market to finance the budget deficit in 1983, the current estimates of the overall balance of payments deficit would also be larger than originally projected, although by the same token, the external debt situation, already a matter of great concern, would not be aggravated further.

As for the domestic side of the economy, Mr. Salinas joined others in commending the authorities for the considerable progress made toward restoring budgetary discipline, by means of reducing current and capital expenditures more than enough to offset the revenue shortfall in 1982 associated with a lower level of economic activity. Although the level of domestic arrears had been higher than specified under the program, those arrears were recurrent and basically temporary. As the staff had pointed out, domestic arrears resulted in the main from the convergence of a number of factors that did not reflect on the validity of the authorities' policy of demand restraint in 1982, and that would not have any lasting effect on the 1983 program, during which they would be fully eliminated.

In conclusion, Mr. Salinas considered that the authorities had implemented appropriate measures under the stabilization program, and that the achievement of the remaining objectives would depend on the determination of the authorities to continue to take further adjustment measures in 1983 and beyond, as well as on the recovery of world economic activity. He could fully support the proposed decisions.

Mr. Malhotra remarked that he broadly agreed with the staff's assessment and could fully support the proposed decisions. The Ivory Coast authorities had indeed taken impressive measures in the program period. He had not however been surprised by the continuing difficulties on external account, because the major problems confronting Ivory Coast were exogenously induced and thus beyond the authorities' control. In that context, he had noted with satisfaction the projection that it would be necessary for the Ivory Coast authorities to continue on the course of adjustment, and for the Fund to continue to provide adequate support to the member, for some years to come.

The Deputy Director of the African Department said that the strong adjustment effort of Ivory Coast had of course had an adverse impact on real GDP, which in 1983 was not expected to exceed real GDP in 1980. Although the public finance deficit expressed as a percentage of GDP had been on target in 1982, the deficit expressed in CFA francs had been lower than projected when the extended arrangement had been approved, because GDP had also been lower. Similarly, although the current external account deficit expressed as a percentage of GDP had exceeded the original target, the deficit expressed in U.S. dollars or SDRs had not exceeded the original target because of the large GDP depreciation in terms of U.S. dollars. As Mr. de Groote had observed, an even more pronounced decline in GDP might have been feared, given the extremely adverse terms of trade. The orderly and progressive adjustment that took place had probably been less damaging than one that had been unplanned but had resulted from an abrupt fall in imports, which would have resulted in a sharp fall in production.

As for the decline in the share of GDP devoted to investment, the Deputy Director continued, it should be kept in mind that the size of the investment program had been much too large in 1978. In that year, the profits of the stabilization fund had been large as a result of the price boom of coffee and cocoa. After prices had fallen, the authorities had cut back the investment program, by phasing out the most costly projects of infrastructure and public works; adjustment had been needed. In that connection, Executive Directors would have noted the letter from the Minister of Economy and Finance, attached to Appendix I of the staff report, stating that the transfer of the political and administrative capital would not result in additional expenditures. So far, no further capital expenditures had been undertaken relating to the transfer of the capital city.

There was still scope for further reducing the budget deficit by reducing subsidies to public enterprises, the Deputy Director believed. The Executive Board of the World Bank would be considering a second Structural Adjustment Loan (SAL) for Ivory Coast shortly. An agreement had been reached between the IBRD staff and the Ivorian authorities on the conditions of the loan, which would emphasize restructuring public enterprises so as to reduce subsidies. As regards future disbursements under the SAL and under the loan from the Caisse Centrale de Coopération Economique, mentioned by Mr. de Maulde, the amounts given in the staff report were on the conservative side.

Adapting the educational system to the needs of the Ivorian economy was also certainly a structural adjustment that could be made only gradually, the Deputy Director of the African Department stated. Yet specific steps had been taken to that end, and important measures were to be introduced to ensure that scholarships were allocated to students for training in fields where there was a national economic need.

Real GDP might be lower in 1983 than projected in the staff report, but total public expenditure would also be slightly lower, notably with respect to investments in public works projects, the Deputy Director explained. Therefore, the target for the public finance deficit of 6.2 percent of GDP would be respected.

The price of coffee and of cocoa had increased substantially in terms of U.S. dollars since October 1982, the Deputy Director noted. Part of the increase in the price of cocoa had been due to a drought that had reduced the output of cocoa worldwide, including in Ivory Coast. However, the price elasticity of cocoa was substantially less than unity--probably minus 0.4--so that a reduction in the volume of cocoa exports had the effect of increasing export earnings from cocoa. For that reason, the staff's projections of cocoa and coffee export earnings for 1983 were probably not out of line. Mr. Kohnert had mentioned the decline in the price of coffee foreseen in the forward market, but quotations were in U.S. dollars and not in French francs. Moreover, the staff had used the exchange rate prevailing at the time of the mission in January; it had not attempted to forecast the rate of the French franc vis-à-vis the U.S. dollar. Part of the expected decline in the price of coffee in dollar terms might be offset by a depreciation of the French franc in relation to the U.S. dollar.

The projections made at the end of 1980 for Ivory Coast's oil production had been too optimistic, the Deputy Director said. The production shortfall was not, however, due to a lack of oil resources in Ivory Coast but rather to a major change in the world oil market during the past two years. The offshore Ivory Coast oil fields, being under deep water, were relatively expensive to exploit. If world prices were to rise, Ivory Coast oil output could increase. It was also difficult to make long-term projections of world prices of coffee and cocoa, either in U.S. dollars or in French francs. Because the medium-term and long-term prospects for those commodities were not very good, the staff had used relatively conservative assumptions with respect to Ivory Coast's export earnings, an increase of 9 percent a year in terms of French francs.

In response to questions relating to the tools available to the authorities in their pursuit of the adjustment effort, the Deputy Director continued, it could be seen from Chart 5 of the staff report that there had been a substantial depreciation of the effective real exchange rate. Table 4 also showed that developments with respect to debt servicing and exports appeared very different if they were expressed in French francs instead of U.S. dollars. The staff's assessment was that the effect on the debt service ratio of a depreciation of the French franc in relation to the U.S. dollar was roughly neutral. There was no doubt that the debt service ratio was the subject of the greatest concern. As was highlighted by a number of Directors, few developing countries so highly dependent on exports of primary commodities and having experienced such unfavorable changes in their terms of trade had been able to continue to service their debt, without considering a debt rescheduling exercise.

With respect to monetary policy, the Deputy Director continued, Executive Directors would have taken note of the increase in the UMOA money market rate by 1 percent, bringing the rates in that market roughly up to par with the French money market. The service tax on borrowing, to which Mr. Erb had referred, did indeed increase the cost of borrowing by enterprises. The rate of the service tax was not the same for all members of the West African Monetary Union, something that created problems in view of the free transfer of capital among members.

In its revenue projections, while the staff had assumed an improvement in tax administration, the Deputy Director of the African Department commented, it had counted more on a reduction of subsidies to public enterprises which could result from measures to be implemented under the second Structural Adjustment Loan. The rate of taxation in Ivory Coast was already quite high, and the best way to increase revenue would be to improve the administration of the tax system. The extension of the value-added tax to the modern trade sector had been under consideration for some time; whether or not that one remaining recommendation of the IMF tax mission would be implemented remained to be seen.

The Deputy Director of the Exchange and Trade Relations Department said that the staff had not had the same concern about the limitations on Ivory Coast's policy instruments as a result of its membership in a currency union as it might have had about those in some other countries. There was clear evidence of flexible use of the interest rate instrument in Ivory Coast. The rates had been raised by 2 percent in April 1982, and the subsequent sharp reduction in April 1983 had now been partly restored. Use of the interest rate instrument had thus by no means been ruled out. Of course, there was the broader question raised by Mr. Erb of whether or not the incentives for saving were fully adequate.

On the exchange rate, the Deputy Director added, there had been a significant depreciation of the CFA franc in the course of the extended arrangement. Without doubt, that depreciation had eased the burden of adjustment on the domestic economy. It could be argued that a greater degree of effective depreciation would have eased that burden somewhat further; but there would be serious questions about such use of the exchange rate instrument in a low inflation country like Ivory Coast.

From the staff's point of view, the Deputy Director observed, it was appropriate for the major adjustment to be in the budgetary area, even though the staff recognized the social costs of such adjustment. The budget deficit remained fairly high, especially in relation to available financing; borrowing from foreign commercial banks was out of the question at present. The staff would agree with those Directors who had noted that Ivory Coast had little choice, given its desire not to reschedule its debt, and in light of a heavy debt service burden, to continue with stern budgetary policies.

It was not entirely premature to think about the possibility of a future program for Ivory Coast under an arrangement with the Fund, the Deputy Director of the Exchange and Trade Relations Department observed, because the medium-term scenarios pointed to the need for continuing adjustment after the end of the present extended arrangement. The staff had taken note of the comments made by Directors on the way in which they envisaged a future program for Ivory Coast. Executive Directors would have an opportunity later in the year, when a staff paper on the mandatory review was discussed, to express further views on the matter.

Mr. Alfidja said that, as he had often mentioned, membership in the West African Monetary Union did not place undue limitations on its members' adjustment efforts. As he had noted during the Article IV consultation with France, certain countries had agreed to associate themselves with the French economy, for better or worse; on the whole, the relationship had positive features rather than limitations.

As for the future relationship between the Fund and Ivory Coast, Mr. Alfidja recalled that he had mentioned in his opening statement the welcome given by his authorities to the forthcoming opportunity to review progress under the program and to look at the medium-term prospects of the economy. He agreed completely with those Executive Directors who considered that Ivory Coast had to pursue a structural adjustment effort that would take time to implement. It was too soon to know whether Ivory Coast would want to enter into another extended arrangement, or whether it would prefer a one-year stand-by arrangement. One constraint on use of the Fund's resources by Ivory Coast was of course the present policy on access limits. It seemed to him that some derogation from those limits could be envisaged for Ivory Coast, not only because of the magnitude of the adjustment to be undertaken but because of the significant measures that the Government had adopted so far to bring the economy more into line with a difficult world economic situation. He understood that the staff had made only a working assumption with respect to a future program, a matter more suited to consideration during the forthcoming discussions between the Fund and the Ivorian authorities.

The effect on incentives of the service tax on bank lending charges, to which Mr. Erb had referred, was a question that had been raised previously, Mr. Alfidja noted. Although he agreed that the tax might constitute a disincentive, the rationale for it was based not solely on revenue considerations but also on the need to discourage lending for unproductive activities. It was necessary to take an overall view of all investment projects, whose quality and content rather than number was important. For instance, there were circumstances in which it might be advisable not to encourage speculative investment in real estate.

As he had observed during the discussion of another country in his constituency, Mr. Alfidja went on, education was a complex field in which expertise should perhaps be sought from the World Bank or from other international organizations. A policy of training people with skills needed in the economy was not easy to implement, especially when the rate of unemployment was high, but Ivory Coast was on the right track. It should be noted, however, that many people whose training had begun previously would be moving into the system in the next few years, in addition to those who were already there. To the best of his knowledge, the original program for Ivory Coast was in fact the first to include mention of bringing the number of admissions to the various training schools in line with job requirements of the economy, and to call for a policy of Ivorization. Progress in the latter direction was also being made, although Ivorization should of course not be pursued for its own sake, lest the economy suffer unduly; the policy did however seem likely to contribute to solving the problem of employment.

Finally, Mr. Alfidja associated himself with the suggestions made by Mr. de Groote with respect to linking the repayment of debt to developments in the terms of trade and exports. The correction of external imbalances was indeed related to the domestic economic situation.

Mr. Erb recalled that he had asked not only for the staff's view on the current rate of investment as a percentage of GDP but also for the reasons underlying the decline in gross domestic savings, which had been even sharper than the decline in investment. Had the level of government savings in earlier years been a factor?

The Deputy Director of the African Department replied that public savings as a percentage of GDP were shown in the memorandum items in Table 9 of the staff report. Public savings had fallen from 3.8 percent of GDP in 1981 to 1.9 percent in 1982, and were expected to rise again to 3.1 percent in 1983. It would be noted from Table 8 that gross domestic savings had been adjusted to the decline in real domestic income. In 1983, the share of consumption would fall, compensated by an increase in gross domestic savings, the difference being about 2.5 percent, as reflected by the change in the resource balance.

The mid-term review of Ivory Coast's extended arrangement would take place at the beginning of July, the Deputy Director added, and the Fund mission would include one staff member of the World Bank. The investment program for 1984 would be reviewed at that time. Experience in Ivory Coast had shown that the investment program had to be reviewed six months in advance if major decisions affecting the investment program were to be taken in an orderly way. Decisions relating to the 1983 investment program had been made in July 1982.

The Acting Chairman made the following summing up:

Executive Directors commended the Ivorian authorities' success in further reducing the public sector deficit during 1982 in spite of increasing interest payments on the public debt and an adverse international economic environment, which had made adjustment more painful. It was a source of satisfaction that the early and vigorous adjustment effort had limited the fall in real GNP. Directors noted the determination of the authorities to eliminate all payments arrears by the end of the period of the extended arrangement with the Fund. They encouraged the authorities to pursue the fiscal effort by further compressing current as well as capital expenditures, and by improving the efficiency of public sector enterprises. They shared the concern of the authorities about the need to minimize the impact of adjustment policies on growth and employment, and noted that it was of paramount importance to continue to ensure the efficiency and productivity of investment.

Directors acknowledged that the inability to realize an improvement in the external current account as large as the one targeted in the original program under the extended arrangement was mainly due to factors beyond the control of the Ivorian authorities, in particular, the adverse evolution of the terms of trade. In view of the limited prospects for a major recovery in commodity prices, and of large external debt servicing costs, they emphasized the need to adopt further fiscal and monetary measures so as to reduce the current account deficit in the years ahead and hence the country's external financing needs.

Directors were impressed by the authorities' successful mobilization of official and private foreign capital during 1982, which had permitted a significant improvement in the external balance. They observed however that that had been accomplished at a time of particularly difficult conditions on financial markets and thus at the cost of a substantial increase in the debt service ratio. They concurred with the staff's opinion that this could not be repeated soon. They noted that the fixed parity between the CFA franc and the French franc, and the depreciation of the latter, had recently helped the Ivorian effort at export diversification and import substitution. The increase in interest rates, effective June 10, was welcomed, as was the intention of the authorities to follow flexible interest rate policies. The need to reverse the sharply declining trend in domestic savings was stressed.

Directors welcomed the Ivorian Government's continuing commitment, despite the difficult economic conditions, to maintaining an open economic system free of restrictions on current international transactions. The courageous adjustment policies of the Ivorian authorities deserved the continued support of the international community, including the Fund. It was also clear, Directors noticed, that cautious policies would have to be continued for several years ahead.

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

The Executive Board then took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision in concluding the 1982 Article XIV consultation with Ivory Coast, in light of the 1982 Article IV consultation with Ivory Coast conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Ivory Coast continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

Decision No. 7424-(83/83), adopted
June 10, 1983

Review Under Extended Arrangement

1. Ivory Coast has consulted the Fund in accordance with paragraph 3 of the extended arrangement for Ivory Coast (EBS/81/34, Sup. 2, 3/5/81) and paragraph 3 of the letter of January 19, 1981, annexed thereto, in order to reach understandings with the Fund

regarding the policies and measures that the authorities of Ivory Coast will pursue for the third year of the extended arrangement.

2. The letter dated March 1, 1983 (as amended by telex) from the Minister of Economy and Finance of Ivory Coast shall be attached to the extended arrangement for Ivory Coast, and the letter of January 19, 1981, as heretofore amended, shall be read as amended by the letter of March 1, 1983. The performance clauses referred to in paragraph 3(b) of the extended arrangement for the third year of the arrangement from March 15, 1983 to March 14, 1984 shall be as follows, provided that the purchase of up to SDR 38.475 million pursuant to paragraph 3 below shall not be subject to the performance criteria for December 31, 1982:

(i) the limits on net domestic assets of the banking system in the table in the letter of March 1, 1983;

(ii) the limits on net claims of the banking system on the public sector described in the table in that letter;

(iii) the limits on the public sector's combined payments arrears described in the table in that letter;

(iv) the limits on contracting of government or government-guaranteed foreign borrowing described in the table in that letter.

3. Purchases under the extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 369.075 million until June 15, 1983, the equivalent of SDR 407.550 million until September 15, 1983, and the equivalent of SDR 446.025 million until December 15, 1983.

Decision No. 7425-(83/83), adopted
June 10, 1983

## 2. UPPER VOLTA - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report on the 1983 Article IV consultation with Upper Volta, together with a proposed decision (SM/83/99, 5/24/83; Cor. 1, 5/25/83; and Cor. 2, 6/3/83). They also had before them a report on recent economic developments in Upper Volta (SM/83/112, 6/2/83; and Cor. 1, 6/2/83).

Mr. Alfidja made the following statement:

Overall economic activity in Upper Volta was stagnant in 1982. At the same time, inflation as measured by the increase in the GDP deflator stabilized at 10-11 percent.

On the external front, total export receipts in CFA franc rose by 19 percent in 1982 due largely to the growth in the volume of exports of livestock products and to the effect of the CFAF devaluation. However, due to a 10 percent increase in import payments mostly for petroleum products and a decrease in remittances by nearly CFAF 3 billion, the current account deteriorated to the equivalent of 6.6 percent of GDP. Despite an increase in net capital inflows, chiefly to the public sector, the overall balance of payments recorded a deficit equivalent to about 0.9 per cent of GDP in 1982, the first time over a four-year period.

The fiscal performance in 1982 was better than expected as the preliminary data show an overall budget deficit including grants, of 31 percent less than in the initial budget, reflecting a lower than budgeted expenditure and higher than budgeted revenue. This reflects the Government's determination to avoid a further deterioration in the fiscal position. To increase revenue, the Government had to take a number of measures, including an increase in tax rates on petroleum products and on agricultural, metal, and dairy products, as well as the elimination of exemptions for imports of flour and pharmaceutical products. Measures aimed at improving tax administration were also taken.

On the expenditure side, a moderate increase in recurrent outlays due mainly to interest payments on external debt was more than offset by a reduction of capital expenditure, reflecting a stagnation of foreign aid and a shortage of the domestic counterpart of this foreign aid.

In the monetary sector, the expansion in domestic credit by some 15.5 percent was entirely directed to public enterprises and to the private sector, especially for the financing of imports. Net borrowings by the Central Government, which were substantial during the first half of 1982, were eliminated during the last two quarters following the disbursement of foreign loans and the collection of some taxes.

The medium-term objective of the development effort in Upper Volta remains the attainment of self-sufficiency and the expansion of cash crops. However, agricultural production is deeply affected by weather variations, which, in this sub-Saharan part of Africa, are extremely uncertain. The recovery of the output of cereals, which began in 1981/82 owing to timely rainfall, is expected to continue in 1982/83. Similarly, the output of cotton is expected to rebound by 12 percent to reach 65,000 tons in 1982/83, in part as a reflection of the price incentives implemented in 1982. As a result of this recovery in agriculture, real total output is forecast to expand at a more rapid rate, 3.3 percent in 1983.

In the fiscal area, my Upper Voltan authorities intend to reinforce the adjustment effort under way by reducing the overall budgetary deficit to the equivalent of 3.9 percent of GDP in 1983. The more buoyant overall economic activity and the impact of new tax measures are expected to be the major contributory factors to the revenue increase. These revenue measures include an increase in the standard value on the basis of which custom duties are computed, the reduction in tax exemptions and further increases in tax rates on petroleum products. The tax collection administration will be reinforced in order to further reduce tax arrears. With regard to expenditure, the Government will apply more restraint on spending. Total outlays are expected to increase by 4 percent, which is well below the projected rate of inflation. Recurrent expenditure is forecast to rise by about 9 percent, due largely to interest payments as in 1982. The wage bill will rise by a token 2.8 percent and no general salary increase is planned. Hirings will be restricted. Outlays on material and supplies are expected to fall substantially, and finally, a determined effort will be undertaken to eliminate the practice of unauthorized expenditure and cost overruns.

The financial situation of public enterprises also retains a great deal of the attention of my authorities and they are currently reviewing the findings and recommendations prepared by a Commission created for the purpose. In the meantime the prices of some of the goods and services provided by these enterprises have been raised. The Upper Voltan authorities are holding discussions with the Société Ivoirienne de Raffinage in which Upper Volta is a shareholder, to set oil prices that would reflect recent developments in the world oil market. In the meantime, the authorities have undertaken to diversify their supplies of oil and thus to take advantage of better price offers.

On the external front, the current account deficit is expected to worsen substantially due to the higher import cost of petroleum products and lower workers' remittances. Despite a 20 per cent increase projected in net capital inflows, the overall balance of payments deficit is forecast to widen. My Upper Voltan authorities are very concerned by this development. It is their expectation that the current account deficit will decline as the inflow of workers' remittances picks up following the recovery of economic activity in neighboring countries and once the impact of austerity measures on import demand had been felt. Consistent with the objectives adopted in the fiscal area, and in order to avoid any increase in domestic demand, the authorities intend to restrict domestic expansion to no more than 16 per cent in 1983, which is the same increase recorded in 1982. The limitation placed on credit to public enterprises and the expected amelioration of their financial position resulting from the recent price increases will contribute to a reduction in the amount of uncollectable debt owed to banks.

> Finally, as in the past, Upper Volta harmonizes its monetary policy in general, and its interest rate policy in particular, with the other member countries of the West African Monetary Union.

The link between the economy of Ivory Coast and that of Upper Volta would no doubt facilitate the discussion, Mr. Alfidja added. In that respect, he mentioned that the announcement preceding the discussion of the Article IV consultation with Ivory Coast relating to the increase in interest rates in the UMOA applied also to Upper Volta.

Mr. Sangare observed that economic management was a difficult task for Upper Volta, a landlocked country with limited natural resources. An even keener appreciation of the problems confronting the authorities could be gained from the fact that agricultural production, the mainstay of the economy, was susceptible to the vagaries of the weather. It seemed clear to him that the transformation of the economy would require not only an extended period of time but also sustained efforts on the part of the authorities to carry out appropriate measures aimed at using the nation's scarce resources in the most efficient manner. The role of external capital would also continue to be important, and the authorities would need to ensure that inflows of resources were channeled into projects that would expand the productive base of the economy.

In general, Mr. Sangare considered, the performance of the economy had been satisfactory. A positive rate of growth of GDP per capita had been maintained over the past decade, with much of that growth being attributable to efforts under way to develop the countryside. He was pleased to note that that broad-based development of agriculture still remained the first development priority. However, he had noted that the staff and the World Bank had expressed some misgivings about the recent thrust of the Government's investment program, with particular reference to the Tambao Railway Project. It would have been helpful if the staff report had contained a more detailed discussion of the country's investment program. He was disturbed that the World Bank, as indicated in the staff report, was threatening to review its other lending programs in Upper Volta if the railway project went ahead. He was aware that that issue should be addressed in another forum, but he wondered whether the staff would comment on whether or not it was the general policy of the World Bank to effect changes in the development programs of member states in that manner. It was his hope that the new plan under preparation would provide an opportunity for the authorities to spell out more clearly the priority objectives for the economy and the means of achieving them, striking an appropriate balance between the immediate social needs of the society and the longer-term goal of establishing the basis for sustained economic growth and a viable balance of payments position.

Attention had also been drawn in the staff report to the more immediate need to improve the Government's financial situation, Mr. Sangare observed. He agreed that there was cause for concern about the inadequate response of revenue to discretionary tax measures. With taxes on international trade being the largest source of revenue, it was not surprising that the large number of tax exemptions on imports--about 60 percent of total imports were specified under the investment code as not being subject to import duties--and the failure to assess import duties on the basis of actual cost had depressing effects on the buoyancy of revenue. It was true that investors, especially expatriates, usually expected governments of poorer nations to grant excessively generous terms as a precondition for locating plants in those countries; it would still seem advisable for Upper Volta to re-examine the incentives that it offered. In the meantime, the authorities might find it useful to improve expenditure control and monitoring procedures, particularly as foreign borrowing on nonconcessional terms had increased. He hastened to add, however, that in comparison with many other developing countries, Upper Volta had a low debt service burden, which offered the authorities some scope for additional borrowing to finance the development plan.

The performance of public corporations in recent years had not been satisfactory and had placed a strain on the government budget, Mr. Sangare stated. Thus, it would be most helpful for the unit established to supervise those corporations to begin operation as soon as possible. Steps should also be taken to improve efficiency in those corporations. In that connection, he wondered whether the authorities intended to seek technical assistance from the World Bank.

In the external sector, the indications were that the current account deficit would deteriorate further in 1983, Mr. Sangare commented. In that framework, the staff had noted that fiscal and monetary measures would have to be the main vehicle of adjustment under the country's present monetary arrangements, which restricted the use of the exchange rate. While that approach might be valid from the point of view of containing aggregate demand, he believed that equal stress should be placed on finding ways to increase exports; it might be difficult to bring about a substantial reduction in imports, the bulk of which was composed of such essentials as food, petroleum products, and equipment. As for the exchange rate issue, he wondered whether an adjustment in the rate, if it were possible, would have any significant impact on the balance of payments; Upper Volta's main trading partners were France and Ivory Coast, which together accounted for 55 percent of its imports, whereas about 35 percent of its exports went to countries in the West African Monetary Union.

Mr. Salehkhou declared that, considering Upper Volta's severely limited resources, its unfavorable geographic position, and the subsistence-oriented character of its economy, economic performance had generally been satisfactory in the past decade, particularly with respect to the annual average rate of real growth. Such performance had been due to a large extent to the substantial flow of assistance from a number of foreign donors. It had also been due, perhaps more importantly, to the authorities' cautious and judicious development efforts, which had concentrated on the agricultural sector and aimed in particular at improving rural productivity and promoting new cash crops. The development effort had also aimed at encouraging internal migration to relatively more fertile, underpopulated rural areas in the south of the country, and at favoring the extension of industrial production, specifically through the establishment of a generous investment code.

In the past two years, however, Mr. Salehkhou continued, a number of internal and external developments had resulted in a considerable weakening of the overall balance of payments and fiscal positions and in a stagnation of industrial production. Those developments had included, in particular, a sharp decline in foreign assistance and in workers' remittances associated with the economic recession in most donor countries and in neighboring Nigeria and Ivory Coast. They had also included political uncertainties in 1981 and 1982 that had affected industrial expansion, and the emergence of a number of weaknesses relating to the efficient management of public enterprises.

He broadly agreed with the thrust of the staff appraisal and recommendations for the medium term and could support the proposed decision, Mr. Salehkhou said, but he wished to comment on some specific elements of the consultation with Upper Volta. With respect to development and investment, it was necessary to continue to focus on strengthening and expanding the agricultural sector, which remained highly vulnerable to bad weather. Obviously, progress would depend on whether or not foreign assistance was resumed at satisfactory levels, and significant improvements would be necessary with respect both to the management of the Regional Development Organizations (ORDs) and the assessment of the cost implications of particular projects.

As for investments in infrastructure, Mr. Salehkhou continued, the authorities' intention to continue the construction of the first section of the Tambao Railway had become controversial because of the World Bank's opposition. The view of the World Bank was that the prospective rates of return and financial implications of the project did not justify its completion. The Fund staff, while endorsing the World Bank's opposition, did not take up the authorities' arguments and, in particular, those possibly noneconomic factors in favor of continuation. At any rate, he had been pleased to note that the authorities' final decision would be contingent upon obtaining appropriate foreign financing for the railway.

With respect to immediate action to improve external and budgetary imbalances, Mr. Salehkhou remarked, the new Government's efforts would clearly have to focus on fiscal and pricing policies because decisions relating to monetary and exchange rate policy were taken at a regional level in association with neighboring partners.

The critically low per capita income in Upper Volta led him to doubt the staff's assessment of the room for a substantial increase of taxation, Mr. Salehkhou said. However, he could support most of the staff's budgetary recommendations, particularly on the need for a sharp curtailment in the rate of growth of expenditures and for the implementation of new measures to close the estimated gap in the financing of the 1983 national budget. It would also be desirable to implement as soon as possible the reforms recommended by the staff during a previous visit to Upper Volta, calling for closer monitoring of budgetary outlays, including the consolidation of the various special accounts and the establishment of annual investment budgets.

On pricing policies, Mr. Salehkhou noted, a number of public enterprises were experiencing financial difficulties because adjustments in controlled prices were lagging behind rising costs. The authorities seemed to be aware of the need to increase prices so as to avoid operating losses, but in his view, it would be advisable to make the necessary adjustments gradually for sensitive goods and services, in the way fertilizer prices had been adjusted, in association with the World Bank. Raising prices, however, would undoubtedly not do enough to cope with the difficulties of public enterprises; complementary streamlining action would be needed, aimed at improving the productivity and management of those enterprises.

In conclusion, Mr. Salehkhou mentioned that he would favor taking a flexible approach to possible requests by Upper Volta for use of Fund resources. The new Government, which seemed to have a positive attitude toward adjustment, might thereby be encouraged to take the necessary measures in that connection.

Mr. de Maulde remarked that he would underscore the three major comparative disadvantages geography imposed upon Upper Volta, something that it would not have been necessary for him to do, had a map been provided in the staff report. First, as Mr. Sangare had mentioned, Upper Volta was a landlocked country, and therefore had high transportation costs. Second, it was a Sahelian country, where agricultural production was heavily dependent on variable weather conditions, including recurrent droughts over the past decade and at present, with all the attendant adverse effects; moreover, a great part of the most fertile areas of the country had not been suitable for cultivation until recently, because of endemic river blindness. Third, the country had no significant mineral resources, apart from a manganese deposit at Tambao.

Consequently, Mr. de Maulde added, it was unsurprising that Upper Volta was one of the poorest sub-Saharan African countries. The average rate of growth of 3.5 percent achieved over the past ten years thus seemed all the more commendable. The good performance certainly owed much to the fact that the rural/urban terms of trade were not heavily distorted in favor of urban residents, as in so many African countries. It was noteworthy, as illustrated in Table IV of Appendix III in the report on recent economic developments, that the producer price index had increased more than three times between 1975/76 and 1982/83.

Bearing those elements in mind, and turning to Upper Volta's financial situation, Mr. de Maulde mentioned his unease at reading the austere comments in the staff report and the report on recent economic developments concerning the overall budgetary deficit, excluding grants, and the current account deficit. The overall budgetary deficit, before grants were taken into account, was of little significance in a country where grants had represented on average 61 percent of domestic revenues over the past five years. In the absence of those grants, the corresponding investment expenditures would not have materialized. It was therefore inappropriate for the staff to take investment expenditures into account without taking account of the grants that had created investment. Similarly, 62 percent on average of the current account deficit over the past five years had resulted from imports financed by long-term capital inflows, mostly on concessional terms. To pay too much attention to those deficits might lead to the paradoxical conclusion that the best way to reduce them was to curtail official development assistance or external grants. In his view, therefore, the budget deficit including grants and the overall balance of payments deficits were much more relevant indicators in an analysis of the performance of a country like Upper Volta.

It was true, however, Mr. de Maulde observed, that Upper Volta could make further progress on the fiscal side, if it aimed at increasing the elasticity of revenue and the volume of public savings. Otherwise, the deficit after grants and external financing might prove to be higher than the CFAF 3.7 billion originally projected. On the revenue side, it would seem appropriate to implement the measures discussed by the authorities with the staff, namely, an increase in valeurs mercuriales (conventional values for tax purposes) and a limitation of tax exemptions on imports. He had been glad to note from Mr. Alfidja's statement that his authorities shared that view. As for expenditures, the staff's view that pursuit of the Tambao railroad project would be counterproductive because of the project's low rate of return appeared to be not totally unfounded. In that connection, recourse to foreign suppliers' credits would be particularly inappropriate. As far as the investment program was concerned, it would seem wiser to focus on the rehabilitation of the existing railroad from Abidjan to Ouagadougou, and on the Kompienga hydroelectric project. Further action was also necessary in the public enterprise sector, where the supervisory unit established in the Office of the Prime Minister should be made operative, and where it seemed necessary to raise prices and tariffs so as to reduce operating losses. Again, he welcomed Mr. Alfidja's indication of the progress recently made in that field.

The effective implementation of those various measures should, Mr. de Maulde hoped, allow Upper Volta to enter into an arrangement with the Fund, as contemplated by the authorities. Such an arrangement would be most useful in encouraging the international community to increase its support of Upper Volta, which clearly deserved it.

The staff representative from the African Department said that, although he could not comment on the policy of the World Bank, two other projects with which the World Bank was linking the Tambao project were by their nature directly related to the railway project. One was a road envisaged as an alternative to the proposed railway line, running along approximately the same course; the other was the rehabilitation of the existing railroad between Abidjan and Ouagadougou, which was in bad condition. The World Bank had taken the position that it could not support those two projects if Upper Volta proceeded--with its own, or with other borrowed resources--to build the new railroad to Tambao. On that, as on several other issues, the decision of the authorities was probably not yet final. The period since March, when the consultation discussions had taken place, had been one of considerable political uncertainty in Upper Volta.

As for whether or not the World Bank was providing technical assistance to improve the performance of the public enterprises, the staff representative explained that it was doing so where it was itself involved with an enterprise, such as in the railway and fertilizer industries, but not in general. The performance of the public enterprises had however been studied by a government commission, with some technical assistance from France, and a report prepared about one year previously was still under study by the Government.

Mr. Alfidja said that he too was somewhat disturbed, not by the fact that the World Bank made its own judgments on the viability of projects, but by the pressure that it was exerting on the authorities of Upper Volta to accept its judgment on the Tambao Railway Project. It was all the more unfortunate because the Fund, in drawing up programs with member countries--and he hoped that work could begin shortly on a program for Upper Volta--had to accept the World Bank's view of a country's investment program. The World Bank had a representative stationed in Ouagadougou--with ready access to government leaders--who had moreover been assisted by a large team of IBRD experts at the time when the Fund's consultation discussions had been taking place. Moreover, a final decision had not yet been taken. As he understood it, the alternatives under discussion by the authorities were that Upper Volta should continue to pursue the project, within the limitations imposed by the availability of domestic resources, or that it should attempt to seek support from neighboring countries that had potential resources to exploit in the area.

As for the negotiation of a program for Upper Volta, Mr. Alfidja added, the authorities looked forward to having an opportunity to discuss further the measures suggested during the consultation discussions, and to consider possible new assumptions with respect to the financing gap.

Finally, Mr. Alfidja expressed concern over several references in various parts of the report on recent economic developments to political difficulties and uncertainties. Reports on recent economic developments were descriptive and statistical, and they were made widely available to other institutions. It was not clear to him what the Fund's policy in that respect was, but it should be applied evenhandedly, to small developing and large industrial countries alike. In requesting the deletion or amendment of the references that he had in mind, he wished at the same time to express the appreciation of his authorities for the staff's reports, and for the cooperation and assistance of the staff during the recent consultations.

Mr. de Maulde supported Mr. Alfidja's request for a modification of certain references in the report on recent economic developments. It was well within the ability of the staff to amend the language while continuing to indicate the existence of certain problems.

Mr. Caranicas said that he too supported Mr. Alfidja's request. In addition, he shared Mr. de Maulde's earlier view concerning the absence of a map in staff reports, at least in reports on more distant countries. The practice of the World Bank, he believed, was to continue to attach maps to its documents.

Mr. Williams said that he agreed with Mr. Alfidja that all countries should be treated in the same way; and he agreed with Mr. de Maulde that there were other ways of dealing with sensitive issues in staff reports.

The Acting Chairman observed that Executive Directors were of course always asked for their approval before a staff report or report on recent economic developments was transmitted to other international agencies.

The Acting Chairman then made the following summing up:

> Despite satisfactory economic performance in earlier years under difficult circumstances, Executive Directors agreed that Upper Volta needed to take steps to reduce the internal and external economic imbalances that had arisen over the past few years. They noted particularly the recent deterioration in the overall balance of payments position, and felt that a program of action, such as outlined in the staff report and appraisal for the 1983 Article IV consultation, along with continued foreign assistance and Fund financial support, would do much to put the external position on a more sustainable basis for the medium-term future.
>
> The focus of action should be on strengthening the Government's overall budgetary position through restraint on current expenditures, particularly public sector wages and salaries, and through an increased tax effort. There is also need for measures to improve the performance of nonfinancial public enterprises, including increases in tariffs and other prices. The June 10 increase in interest rates by the BCEAO was welcomed. Directors stressed the importance in the development program of well-conceived projects that could be financed on concessional terms.
>
> Finally, it is expected that the next Article IV consultation with Upper Volta will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Upper Volta, in the light of the 1983 Article IV consultation with Upper Volta conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Upper Volta continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

Decision No. 7426-(83/83), adopted
June 10, 1983

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/82 (6/8/83) and EBM/83/83 (6/10/83).

3. FY 1983 BUDGET - TRANSFER OF APPROPRIATIONS

The Executive Board approves the proposal set forth in the memorandum attached to EBAP/83/151 (6/6/83).

Adopted June 9, 1983

4. SURVEILLANCE PROCEDURES - IMPLEMENTATION OF THREE-MONTH PERIOD

The Executive Board approves the proposed method of applying the three-month rule for implementing the procedures for surveillance, set forth in EBD/83/161 (16/3/83).

Decision No. 7427-(83/83), adopted
June 8, 1983

5. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 83/1 and 83/2 are approved. (EBD/83/160, 6/2/83)

Adopted June 8, 1983

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/152 (6/7/83) and EBAP/83/153 (6/8/83), is approved.

APPROVED: October 26, 1983

LEO VAN HOUTVEN
Secretary