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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/170

10:00 a.m., December 9, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	H. G. Schneider
B. de Maulde	X. Blandin
	J. Delgadillo, Temporary
R. D. Erb	
	T. Alhaimus
	S. R. Abiad, Temporary
	T. Yamashita
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
	G. W. K. Pickering, Temporary
A. Kafka	
	G. Grosche
	G. Gomel, Temporary
R. N. Malhotra	
	J. E. Suraisry
	A. A. Scholten, Temporary
A. R. G. Prowse	
G. Salehkhou	
F. Sangare	
	S. E. Conrado, Temporary
J. Tvedt	A. Lindå
	T. A. Clark
	Wang E.

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

African Department: O. B. Makalou, Deputy Director; Buu Hoan, C. A. François, A. Jbili, P. Marciniak, S. L. Rothman, E. Sacerdoti, L. Schmitz, M. Sidibe, A. C. Woodward. Asian Department: H. O. Roden. European Department: P. L. Hedfors, H.-J. Huss, A. Knobl, S. Mitra, M. Rodlauer, K. A. Swiderski, G. Tyler. Exchange and Trade Relations Department: C. D. Finch, Director; D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; M. Allen, H. W. Gerhard. External Relations Department: H. O. Hartmann. Fiscal Affairs Department: G. Blöndal, E.-A. Conrad. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; Ph. Lachman, J. M. Ogoola, S. A. Silard. Middle Eastern Department: S. Thayanithy, G. Tomasson. Research Department: L. Alexander, P. R. Menon. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer; Q. M. Hafiz, D. Gupta, G. Wittich. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, H. A. Arias, C. J. Batliwalla, L. K. Doe, K. A. Hansen, S. M. Hassan, W. Moerke, Y. Okubo, I. R. Panday, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, J. R. N. Almeida, R. Bernardo, J. Bulloch, M. B. Chatah, M. Eran, G. Ercel, C. Flamant, I. Fridriksson, V. Govindarajan, A. K. Juusela, H. Kobayashi, M. J. Kooymans, J. A. K. Munthali, M. Rasyid, J. Reddy, Shao Z., S. Sornyayontr, J. C. Williams.

1. WORK PROGRAM

On the basis of an express desire not to have a Board meeting between December 25 and January 1, 1984, Executive Directors agreed to move the scheduled discussion of an item on Madagascar from December 28 to December 21, 1983.

2. POLICY ON ENLARGED ACCESS - PROPOSED DECISIONS ON TEMPORARY EXTENSION OF PERIOD UNDER PARAGRAPH 4, AND MODIFICATION OF MIXING PROPORTIONS

The Executive Directors considered a staff paper (EBS/83/266, 12/8/83) containing proposed decisions on a temporary extension of the period during which the Fund could approve arrangements under the policy on enlarged access and on a modification of the mixing proportions between ordinary and borrowed resources.

The Chairman, recalling that the authority to approve requests for the use of Fund resources under the enlarged access policy had expired on November 30--when the Eighth General Review of Quotas had become effective--observed that two requests for arrangements including enlarged access were on the Board's agenda for consideration before December 19, 1983, the date when Executive Directors would have an opportunity to adopt a new decision on enlarged access for 1984. In light of the agreement at EBM/83/169 (12/5/83) that those requests should not be postponed until a new decision on enlarged access had been adopted, it was proposed to extend the old decision for a brief period--i.e., "until midnight, December 16, 1983" (Washington, D.C. time)--to accommodate the countries concerned. Also, since there had appeared at EBM/83/168 and EBM/83/169 to be a consensus in favor of the simplification of the mixing proportions, it was proposed that a formal decision on that matter should also be adopted in order to avoid the application of the present mixing proportions to those countries requesting arrangements in the period before a new decision on enlarged access was approved.

The Deputy Managing Director said that he had selected the date of December 16, 1983 in the proposed decision on a temporary extension of the policy on enlarged access on the understanding that the Executive Board would be returning to the longer-term extension of the enlarged access policy on that date. Since the discussion was in fact scheduled for December 19, it might be more appropriate to adopt the date of December 19, 1983 as the limit for the extension.

Mr. Alfidja commented that the change suggested by the Deputy Managing Director was an improvement in the proposed decision; however, as consideration of Madagascar's request had been moved forward to December 21, it was to be hoped that a new decision on enlarged access would indeed be taken on December 19 so that a further extension would not be called for.

Mr. Grosche stated that he had difficulty in going along with the proposed decisions. An important element of the decision on the enlarged access policy had been that the Fund could approve arrangements providing for enlarged access at any time until the Eighth General Review of quotas had become effective. He was therefore hesitant to extend the authority of the Fund to approve requests under the decision on enlarged access--which had lapsed on November 30, 1983--especially since such an extension might set a precedent for future exceptions. As it was expected that the Executive Board would, in less than two weeks, take a new decision on the enlarged access policy for 1984, it might be better to agree in principle to any requests that might come up in the interim, subject to the taking of a new decision on enlarged access.

The Deputy Managing Director observed that the practical effect of Mr. Grosche's approach would be that the first disbursements under any arrangements that might be approved in the interim would not be made available until end-December, which could present difficuties for the countries concerned.

Mr. Malhotra said that he had understood from the discussion at EBM/83/168 and EBM/83/169 that the Executive Board was near agreement on a new decision to extend the enlarged access policy through the end of 1984, as recommended by the Interim Committee. In the circumstances, and assuming that no one wished to deviate from the recommendations of the Interim Committee, his preference was to take a decision on enlarged access through end-1984 at the present meeting rather than extending the old policy for a brief period.

Mr. Erb stated that he could go along either with the decision proposed by the staff temporarily to extend the policy on enlarged access until December 19, or with Mr. Grosche's proposal to take contingent decisions on any requests for arrangements involving enlarged access resources that might come to the Board before December 19, 1983. The two cases in question--requests by Mali and Zaïre--were among the five that the Executive Board had tacitly agreed on October 3 would not be postponed or modified on the basis of possible liquidity constraints. In that sense, the Executive Board had a commitment to follow through on those requests under the old procedures.

He could not go along with the proposal to take a new decision on enlarged access policy at the present meeting, Mr. Erb continued. His own understanding of the outcome of the discussion at EBM/83/168 and EBM/83/169 was that Directors were still not in agreement on whether to go ahead with the Interim Committee's recommendation to have criteria for access by individual cases within the limits. Moreover, the Board still needed to resolve the question of access limits for the compensatory financing facility. It was to be hoped that a consensus on all issues would be reached on December 19, 1983, but there remained some disagreement at present.

Mr. de Maulde said that he was in sympathy with Mr. Grosche's view that it might be inappropriate to extend a decision that had already lapsed. On the other hand, the problem arose mainly because of the Executive Board's own inability to take a decision in good time. He wondered, in the circumstances, whether some language might be found that could meet Mr. Grosche's concern while retaining the practical effect of the proposed decision.

Mr. Sangare, supporting Mr. de Maulde's suggestion, inquired whether the proposed decision, if adopted, would apply to any cases other than those of Mali and Zaïre.

The Deputy Treasurer noted that, for the month of December, it was expected that only Mali, Zaïre, and Madagascar would be requesting arrangements with the Fund; Madagascar was somewhat different from the other two cases in the sense that no immediate drawing would be requested.

The Director of the Legal Department observed that it would of course be possible for the Board to take a decision that, instead of expressly providing for a temporary extension of the enlarged access policy, would simply state that, in the cases of Mali and Zaïre and any other qualifying cases that were approved by a specified date, the terms of the enlarged access decision would be applied.

The Chairman wondered whether it might not be useful to refer, in the decision, to the agreement reached on October 3, 1983 that Mali, Zaïre, Madagascar, and two other countries would be eligible for purchases under the enlarged access policy. While that agreement had been reached against the background of concern about the possible need for measures to conserve the Fund's resources, a reference to the specific cases covered by the agreement might help to alleviate Mr. Grosche's worries that a general, albeit short-term, extension of the enlarged access policy was being proposed.

Mr. Prowse asked whether such an approach would affect the mixing proportions for the cases in question.

The Director of the Legal Department remarked that a reference to the terms of the old decision implied a preference for the old ratio between ordinary and borrowed resources; however, there was nothing to prevent the Executive Board from adopting a new decision on the mix, which would apply to new and existing arrangements with effect from the date of its adoption.

The Chairman said that, in light of the comments by the Director of the Legal Department, it might be better to delay the formal adoption of a decision on the mixing proportions until December 19, when it was expected that a new decision on enlarged access policy would be approved.

The Deputy Treasurer observed that, if the Chairman's suggested approach was accepted, all new arrangements that were agreed before the adoption of a decision modifying the present mixing proportions would be subject to the present mix. In Mali's case, assuming its request for a stand-by arrangement was approved, the mix would be based on the new quotas, because Mali had consented to the increase and had paid the increased subscription. The effect of different mixes on purchases by Mali and Zaïre was shown clearly in the appendix to EBS/83/266.

Mr. Erb commented that, since it was apparent that Executive Directors were agreed to extend for a brief period the Fund's authority to grant stand-by or extended arrangements on the terms of the old decision on enlarged access policy, the old mix of ordinary and borrowed resources should apply as well. Such an application would seem to be more consistent with the Executive Board's October 3 agreement.

Mr. Alfidja stated that, as he understood the implication of Mr. Erb's approach, the first drawing by Mali and Zaïre would be under the old mix, but subsequent drawings would be subject to whatever ratio was in effect at the time for all members.

The Deputy Treasurer observed that, once the Executive Board agreed to the simplified mix, all members, including those with existing arrangements, would benefit from the one-to-one ratio. The net result for Mali, for example, would be higher charges than would have been imposed if Mali's request had been brought to the Board and approved after a new decision on mixing proportions.

Mr. Joyce considered that Mali should not be disadvantaged by virtue of the fact that the Board had been unable to deal earlier with the decisions on enlarged access and the simplification of the mixing proportions; equally, it should not be advantaged by that fact. Hence, applying the old ratio made sense. In passing, he wondered whether, since Mali had already paid its subscription under the new quotas, the access percentages would be affected.

The Director of the Legal Department replied that, because Mali's quota had been increased, the old percentage access limits would apply on the basis of the new quotas, pending the adoption of new mixing proportions. However, the proposed stand-by arrangement with Mali specified in absolute terms the amounts that might be granted. Hence, the change in access limits in Mali's case was irrelevant, and, in any event, the amounts specified were well below the maximum.

Mr. Alfidja said that, while he would have preferred to adopt two decisions along the lines of those proposed by the staff, he could go along with the suggestion to postpone a decision on mixing proportions, so long as the approach did not prevent Mali from drawing as soon as the arrangement was approved.

The following new draft decision was then circulated for consideration by the Executive Board:

> In accordance with the understanding reached by the Executive Board at its meeting on October 3, 1983, it is decided, pursuant to paragraph 4 of the Decision Establishing the Enlarged Access Policy (Decision No. 6783-(81/40)), that the proposed stand-by arrangements for Mali and Zaïre shall be under that Decision.

Mr. Prowse wondered, first, how it could be possible to apply the decision on enlarged access policy when that decision had lapsed. Second, he wondered whether a specific reference to Mali and Zaïre in the decision would be consistent with the principle of uniformity of treatment of members. Finally, the decision should not presume that the proposed stand-by arrangements for Mali and Zaïre would be approved or that they would be under the enlarged access policy.

The Director of the Legal Department replied that there was no presumption that the stand-by arrangements for Mali and Zaïre would be approved; indeed, the text referred to the "proposed" stand-by arrangements. However, the words "when approved" could certainly be added to the text to meet Mr. Prowse's third concern.

On Mr. Prowse's other points, while the authority of the Executive Board to approve new arrangements under the enlarged access decision had lapsed, the decision itself had not, the Director said. Paragraph 4 of Decision No. 6783-(81/40) stated that the authority of the Board to approve a stand-by arrangement that provides for enlarged access "extends until the time when the Eighth General Review of Quotas becomes effective, provided that the Fund may extend this period." In effect, the proposed decision was extending the period for approving arrangements. However, to meet the concerns expressed earlier by Mr. Grosche, no reference to an extension was being made. Finally, the principle of uniformity of treatment was satisfied by the reference in the text to the understanding reached by the Executive Board at its meeting on October 3, 1983. In that respect, any of the five cases comprehended by that understanding would be eligible for enlarged access resources under the proposed decision.

Mr. Prowse remarked that it might be better not to mention the specific cases of Mali and Zaïre; if another case were to come before the Board during the period in question, would it be necessary to take another similar decision specifying that case?

The Director of the Legal Department noted that, if the case in question was not covered by the understanding of October 3, 1983, it would be necessary to take another decision or specifically to determine that the new case came under the October 3 understanding. The Executive Board could of course simply adopt a decision under which it would be able to apply the terms of the enlarged access decision to qualifying cases in a certain period; it did not necessarily have to do so through an express extension of the enlarged access policy for certain cases.

Mr. Malhotra agreed with Mr. Prowse that, as worded, the proposed decision raised the problem of discrimination. It would be better in the circumstances for the Board to adopt a straightforward decision extending the enlarged access policy than to accept a course of action that would require individual solutions for individual cases.

Mr. Suraisry commented that he too was in agreement with Mr. Prowse. The revised proposed decision raised serious questions with regard to the principle of uniform treatment and could set an undesirable precedent.

Mr. Erb, noting that the decision on enlarged access policy had lapsed, wondered whether it might not be more appropriate to suggest that the decision was being "renewed" rather than extended.

The Director of the Legal Department observed that the decision itself had not expired; what had expired was the authority to approve new arrangements under the decision, and that authority could be applied with respect to cases that were dealt with subsequently by the Executive Board. Strictly speaking, that would not be an extension but rather a kind of "renewal" of the authority.

Mr. Sangare remarked that, if the authority of the Executive Board to grant stand-by or extended arrangements under the decision on enlarged access had lapsed, the best way to deal with the current situation was to find language to extend that authority in such a way that it would not conflict with the principle of uniform treatment of members.

Mr. Grosche wondered whether the proposed decision on Mali's request for an arrangement could not itself be modified to suggest that the terms of the enlarged access policy would be applied to that particular case.

Mr. Erb observed that it might be simpler to adopt a new decision stating that the Fund might approve stand-by or extended arrangements providing for enlarged access at any time until December 19. Such an approach would meet his earlier concerns about implying that the decision on enlarged access policy was being extended.

Mr. Alfidja wondered whether Mr. Erb would have any difficulty with adding the words "in accordance with the understanding reached by the Executive Board at its meeting on October 3, 1983."

Mr. Grosche observed that his concerns were not met by the language suggested by Mr. Erb and Mr. Alfidja, because the proposed decision, as revised by them, would still extend the enlarged access decision for all cases, which might create a precedent for further extensions in future.

Mr. Leonard wondered whether it would help if the decision were to read: "In accordance with the understanding reached by the Executive Board at its meeting on October 3, 1983, it is decided to apply the decision establishing the enlarged access policy to include the proposed stand-by arrangements for Mali and Zaïre, when approved."

Mr. Prowse stated that either of the texts most recently suggested seemed to meet the problems that he had raised earlier, although he would like to see them on paper. It was to be hoped that the ad hoc measure under consideration, if adopted, would not reopen the case for an extension of the enlarged access policy, which it was expected would be agreed on December 19.

The Executive Board agreed to conclude the discussion for the time being and to take the matter up again in the afternoon on the basis of draft texts for the proposed decision along the lines suggested by Mr. Leonard and by Mr. Erb and Mr. Alfidja. In accordance with a proposal raised earlier in the discussion, it was agreed that the proposed decision on the mixing proportions would be deferred until a later date.

3. MALI - 1983 ARTICLE IV CONSULTATION, AND REQUEST FOR STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1983 Article IV consultation with Mali (SM/83/190, 8/16/83) together with Mali's request for a stand-by arrangement equivalent to SDR 40.5 million (EBS/83/242, 11/10/83; and Cor. 1, 12/8/83). They also had before them a report on recent economic developments in Mali (SM/83/204, 10/14/83).

Mr. Alfidja made the following statement:

> Following several years of unsatisfactory economic performance in the 1970s, in 1980 the Government of Mali undertook to implement a set of financial and economic policies aimed at gradually restoring viability in the productive apparatus of the country and curbing the growth in private and public consumption. In this context, Mali implemented in 1982 a Fund-assisted program with a view to providing incentives for an increase in agricultural output and bringing about a decrease in public sector financial imbalances. To this end, a battery of economic and regulatory measures was put into effect. These included, in the fiscal area, a 20 percent increase in the rate of some taxes and duties, a revalorization of the import tax base, a revision of the income tax rate, the imposition of strict limitations on personnel expenditure, a reduction in scholarships, and steps to monitor more closely the financial operations of the Treasury and decentralized agencies as well as to improve their efficiency. A rein was put on the access of public enterprises to bank credit. Some of these enterprises were allowed to charge higher rates for their services (electricity, rail transportation). At the same time, some government-owned companies were privatized, while other unprofitable retail outlets were closed. Drastic cutbacks in the work force of public enterprises such as Société Malienne d'Import-Export (SOMIEX) were effected or are taking place. In the particular area of cereal marketing, major actions were taken, including a significant disengagement of the public

sector from the marketing of crops in favor of a greater private sector participation and a 35 percent boost in cereal retail prices. The effects arising from the implementation of these policies together with those associated with timely rainfalls have led to a significant improvement in Mali's financial and economic situation in the recent past.

As stated by the staff, all the performance criteria set at the inception of the 1982 program and during the mid-term review have been met. Real economic growth reached 4.4 percent in 1982, compared with the program target of 4 percent, and food prices rose on average by only 3.7 percent, far below the 12 percent expected, thanks to favorable rainfalls as well as price and marketing incentives initiated by the Government. The overall deficit of the government sector declined as planned to 1.5 percent of GDP in 1982, in comparison with 3.3 percent in 1981. The determination of my authorities to reduce the financial imbalances that have beset the economy is even more apparent in their decision to liquidate payments arrears by the equivalent of 2.5 percent of GDP, well below the program target of 1.5 percent. This achievement is the more commendable when placed against the background of a steady rise in these liabilities during 1979-81. In the external sector, the overall balance of payments deficit declined from the SDR 13 million envisaged in the program for 1982 to SDR 2.3 million, considerably below the near SDR 33 million recorded in 1981 owing to an improved current account position and inflows of concessional loans.

In furtherance of the economic and financial adjustment in progress, the Government has undertaken to implement a program for which it is requesting Fund assistance over an 18-month period ending May 1985. In particular, additional gains are sought through a strengthening of the public sector's position. In this regard, the overall deficit of the public sector is forecast to decline further to 1.2 percent of GDP in 1983 and 0.7 percent in 1984. This target is to be achieved through a moderate expansion in revenue coupled with continued restraint in expenditure growth. In addition to steps aimed at ensuring a more effective taxation of cotton exports and stricter compliance with some import tax regulations, the fiscal measures of the program include a wage freeze, the halt of automatic hiring of University graduates, and the introduction of a selective entry procedure into the civil service. With respect to the specific issue of employment in public enterprises, the staff has reported that the Government is to reduce the work force of SOMIEX by 40 percent over about a three-year period ending June 1984 or a total of about 530 workers. As stated by this chair during the February 1983 review of the 1982 stand-by arrangement, the problem of education, training, and employment is not limited to Mali but is encountered in many other countries; hence, it should be examined carefully with the assistance of competent

institutions like the World Bank and the International Labor Organization. I also would like to stress the courage displayed by the Government of Mali in taking and implementing evidently unpopular measures. However, I share my authorities' strong concern about the effects on productivity and morale of years of wage freeze in an economy where the levels of wages and salaries are relatively low on the basis of regional standards.

The Government of Mali is committed to placing public enterprises on a sound footing. In this respect, the gradual transfer to the private sector of commercial activities formerly undertaken by such public enterprises as SOMIEX and the active preparation of rehabilitation programs for many others constitute firm steps in the right direction. In particular, it is hoped that the call for foreign participation in the capital as well as the provision of managerial and technical assistance to Air Mali will be heeded.

In the monetary sector, steps are to be taken in order to implement the decision taken by the Conference of Heads of State in Niamey on October 31, 1983 to admit Mali in the West African Monetary Union. As stated by the staff, the implications of this decision on Mali's economic and financial situation will be reviewed in 1984. The upward adjustment in nominal interest rates in 1982 and 1983--in association with the abatement of inflationary pressures--has led to the emergence of positive real interest rates. Measures aimed at strengthening the administrative and financial structure of deposit money banks as well as their financing of economic activity in the private and semipublic sectors are also in the right direction.

The external current account position is forecast to improve moderately in 1983, as the deficit is projected to decline by 2.5 percentage points to 7.8 percent of GDP owing to higher exports of cotton and increased inflows of foreign grants. However, as a result of a lower inflow of net foreign public loans, due in part to a slower pace of implementation of development projects, as a result of the reduced level of refinancing provisions, the overall external position is expected to deteriorate markedly in 1983. A substantial improvement in the current account is forecast for 1984, spurred by growth in cotton and gold exports. As a result, the overall balance of payments deficit is projected to contract significantly despite an expected further decrease in net private and public capital inflows. Finally, authorities are concerned about the rise in the debt service ratio beginning in 1983, after a temporary decline in this indicator in 1982. It is the Government's intention to keep the evolution of this ratio under close review and refrain from borrowing on nonconcessional terms whenever possible.

My Malian authorities are of the view that the implementation of policy decisions that have resulted in the significant decrease of the overall fiscal deficit in 1982, the sizable repayments of arrears, and the reduction in the external current account deficit should be taken as evidence of their determination to tackle difficult problems. The Government of Mali would like to reiterate its commitment to taking further measures in order to redress the economic imbalances. However, sight should not be lost of the large social and economic costs associated with measures such as a rapid and large compression of the public sector labor force in a country with extremely limited employment opportunities in the modern private sector.

Mr. de Maulde expressed regret that so much time had elapsed since the expiration of the previous stand-by arrangement on May 21, 1983. The financial program supported by that arrangement had been considered a success during the mid-term review in February 1983, but the program had covered only calendar year 1982. In the circumstances, the authorities should be commended for having consistently pursued their adjustment efforts during 1983 and for having further reduced the economy's internal and external imbalances.

The program for 1984 seemed adequately to address the main problems that had long plagued the Malian economy, namely, an excess of public consumption associated with large budget deficits--reflecting deep-seated structural difficulties including overemployment in the civil service and public enterprises--and a general inefficiency of the public sector linked to cost-price distortions. It was almost impossible to correct macroeconomic disequilibria without, at the same time, attempting to resolve a number of problems of a more microeconomic nature, which would obviously take more time. However, the staff had well understood the difficulties involved in the process of structural transformation and had succeeded in striking a proper balance between the necessity for a quick adjustment and the need to avoid impairing the implementation of structural reforms through undue haste.

Most wide-ranging measures in the program were in the area of personnel expenditures, where the Government had already decided to discontinue the automatic hiring of graduates and had established competitive examinations to fill vacancies, Mr. de Maulde continued. In addition, the freeze on wages, initiated in 1981, was expected to be continued through 1984. Another area where substantial progress had been made was in the restructuring of the largest of the loss-generating public enterprises, Société Malienne d'Import-Export (SOMIEX), which had been effective in the framework of the Mali-Sud project financed by the World Bank and other agencies. As part of the conditionality associated with that project, the Government had accepted a new financial mechanism for cotton exports, which precluded the absorption of export profits by SOMIEX to cover losses in internal distribution.

One far-reaching consequence of the measures adopted by the authorities was that the entire system of relationships among the state, parastatal agencies, and the farmers had become much more transparent, Mr. de Maulde remarked. The resulting increased income for the farmers should make possible a sizable rise in cotton production and cotton exports. Moreover, the Government had committed itself to completing the restructuring with further measures that would involve new reductions in personnel. The difficulties of such a task, which required a great deal of political courage, should not be underestimated. Finally, the return of Mali to the West African Monetary Union was, in his view, a sign of the confidence that the other members of the Union had in the financial position of the Malian economy and should presage the success of the program.

Mr. Ismael stated that he was in broad agreement with the staff appraisal and that he could support Mali's request for a stand-by arrangement. It was encouraging to note that considerable improvement in the performance of the Malian economy had been achieved in 1982, and he was pleased to see that the 1982 program objectives had been met. Nevertheless, there remained a number of areas requiring further improvement. The resource gap continued to be large; as a consequence, there was continued heavy dependence on foreign aid. Moreover, reserves remained low, and payments arrears were sizable. In the circumstances, a greater effort was required to bring about improvement through demand restraint and through further incentives for the mobilization of domestic resources. He encouraged the authorities to introduce additional measures in order to reduce the current account deficit, which, in his view, was not sustainable in the long term; further action might also be necessary to bring about improvements in the public finances.

Given the remaining problems, Mr. Ismael said, it was gratifying to note that the proposed program for 1983/84, if implemented, would go a long way toward eliminating the remaining disequilibria in the economy. The program represented a strong adjustment effort toward improving the financial and structural weaknesses in the economy, and he could therefore support the proposed decisions.

Mr. Pickering agreed with others that performance under the previous stand-by arrangement had been commendable: all performance criteria had been observed, and the financial objectives in the fiscal, credit, and external areas had been attained. While there had been delays in pursuing adjustment in some areas, notably in the public sector enterprises, the general pace of adjustment had been adequate.

Given developments since the end of the previous stand-by arrangement, the focus of the measures envisaged in the new program seemed to be appropriate, and he could fully support the proposed decisions, Mr. Pickering stated. He placed particular emphasis on the structural nature of the measures in agricultural policy, government employment, and the parastatals. The use of a series of stand-by arrangements in a medium-term context had, in Mali's case, provided a flexible environment allowing for the pursuit of effective and sustained adjustment.

Turning to some of the specifics of the proposed stand-by arrangement, Mr. Pickering considered that the authorities should take prompt action in rehabilitating the public sector enterprises, particularly in view of the slippages in the previous program. The measures to improve the finances of SOMIEX and Air Mali needed to be introduced as quickly as possible in order to reduce their drain on government resources. He looked forward to a detailed report on progress toward those ends on the occasion of the next review.

On government employment, the continued dominance of the "personnel expenditures" component of the budget was a major weakness in the Government's accounts, Mr. Pickering commented. It was disappointing that the increasing share of such expenditures in the overall expenditures of the Government left inadequate amounts for maintenance, other recurring costs, and investment. It was also regrettable that the wage freeze had not resulted in a sufficient limitation of the growth of wage costs. Furthermore, the discontinuation of the policy of automatically hiring graduates, while welcome, might not be effective if the new system of examinations continued to result in large increases in employment; he therefore attached importance to the limits that had been placed on expenditures for new hiring in 1983 and 1984. Since the Government was aware that the total number of employees was excessive and that their qualifications needed to be upgraded, some consideration should also be given to setting targets for decreasing the number of government employees.

The authorities had made substantial progress in the reform of agricultural policies through increases in producer prices, Mr. Pickering observed. Table 9 of SM/83/204 indicated, however, that producer prices of some agricultural commodities in Mali--particularly millet, sorghum, cotton grains, and rice paddy--still tended to be below those in Mali's neighbors, at least according to data for 1982/83. He urged the authorities to move toward free-market pricing for those products as soon as possible in order to make full use of Mali's large agricultural potential.

Taking a medium-term perspective, Mr. Pickering said that it was encouraging to note that Mali could achieve an overall balance of payments surplus after 1984. He agreed with the staff that the debt service ratio was "still a modest figure" by comparison with those in other developing countries, but he saw no room for complacency. Comparing the debt service burden in 1982 with projections for 1987 made it clear that debt servicing costs would rise by a factor of four and that the debt service ratio would more than double. Underlying the hoped-for medium-term scenario were two points worth noting: first, the outlook for exports was particularly sanguine; second, it was clear that the economy would continue to depend on high levels of concessional aid.

Mr. Grosche recalled that, in 1981, Mali had implemented adjustment measures that had represented a clear and courageous reorientation of policy. Since then, the authorities had proceeded with determination toward economic and financial rehabilitation, and the positive results of their efforts had been clearly described in the consultation paper.

Despite the progress achieved thus far, Mali was facing serious economic problems that were structural and would have to be tackled over a long period. The program under consideration was a comprehensive one and rightly focused on public finances, public enterprises, and the agricultural sector. If fully implemented, it would constitute an appropriate adjustment effort and a substantial step toward balance of payments sustainability. However, certain weaknesses in Mali's administrative capability suggested that the program would by no means be an easy one to implement; hence, he attached particular importance to the scheduled reviews. In that context, the need for evidence of appropriate progress in reorganizing the public enterprises--particularly Air Mali and SOMIEX--could not be overemphasized.

As noted by Mr. de Maulde, important elements of the Fund program were being coordinated with the World Bank on the microeconomic level, mainly in the development of the agricultural sector and the restructuring of public enterprises, Mr. Grosche continued. Such coordination was encouraging because it increased the chances that the program would be successful.

On the question of stand-by versus extended arrangements, Mr. Grosche observed that, in some recent cases, it had been difficult to distinguish between short-term stand-by arrangements in a medium-term framework and extended programs. Mali's request could present similar difficulties. Most of the important measures under the program were designed to achieve substantial changes in institutional arrangements, public enterprises, and marketing; and the bulk of the beneficial effects of the measures would be felt only over the medium term. In the circumstances, it might be useful to know why the staff had preferred to negotiate another stand-by arrangement with Mali. The previous program had been quite successful and could have been regarded as a sound basis for a request for an extended arrangement with the Fund.

Finally, with regard to Mali's prospective entry into the West African Monetary Union, Mr. Grosche recalled from a previous discussion on the direct and indirect benefits that Mali could expect from joining the Union that it would apparently be allowed to consolidate all its external liabilities under an Operations Account with the French Treasury. Could the staff provide more information on the conditions of such a consolidation?

Mr. Abiad commented that the resumption of real GDP growth in Mali in 1982/83 and the deceleration in the rate of inflation were encouraging developments; progress had also been made in correcting structural imbalances and in reducing the disequilibria in public finances and the balance of payments. Those trends, which were expected to continue in the year ahead, were in part attributable to the wide-ranging measures taken by the authorities since mid-1982 on both the demand and the supply sides in conjunction with the previous stand-by arrangement with the Fund. Performance under the 1982/83 Fund-supported program had been broadly satisfactory;

the relevant criteria had been met, and the program's objectives appeared to have been attained in spite of the country's structural and institutional limitations and narrow resource base.

The proposed 18-month program was designed to consolidate the achievements of the previous program and was aimed at carrying further the process process of adjustment by narrowing external and internal financial imbalances, rationalizing resource allocation, and further reducing cost-price distortions, Mr. Abiad continued. In pursuit of those objectives, the authorities had restated their intention to maintain the stance of the fiscal and monetary policies that had been adopted some 18 months previously and been described by the staff as "prudent." Like the preceding arrangement, the new one involved a policy package containing, in addition to the pursuit of tight demand management policies, a number of supply-oriented policies and measures aimed at restructuring the institutional framework. Experience suggested that the implementation of such structural adjustment measures normally required time to be effective; hence, it was important that the program's time perspective should be adequate for an orderly achievement of the objectives pursued. In that respect, Mr. Grosche had raised a relevant question regarding the staff's preference for a stand-by rather than an extended arrangement. Finally, on the "privatization" and liquidation of some public sector enterprises, it would be interesting to know whether alternative means of bringing about the desired rationalization of those enterprises had been fully considered.

Mr. Sangare stated that his chair was fully in support of Mali's request for a stand-by arrangement, which followed logically on the successful completion of the program that had expired in May 1983. The authorities deserved commendation in that regard, in particular for having implemented the program in the midst of a difficult external environment. He agreed with the staff that the proposed program represented a strong and determined effort to reduce further the internal and external imbalances; if it was successfully implemented, Mali should be able to achieve sustainable growth in the medium term.

The authorities deserved commendation not only because they had been able to meet all the quantitative performance criteria under the previous program but, more important, because they had made significant progress in stimulating growth while containing the rate of inflation, Mr. Sangare continued. Following two years of decline, real output had registered an impressive rate of growth in 1982--4.4 percent--mainly on account of good weather that had resulted in greatly expanded agricultural production in the traditional smallholder sector. The increased production had been supported by measures initiated in 1981 to provide adequate price incentives. Moreover, the rate of inflation as measured by the GDP deflator had been reduced in 1982 by some 2.2 percentage points, and further progress was envisaged in 1983.

The new program was necessary to ensure that the gains made thus far were consolidated, Mr. Sangare noted. However, he wondered whether the

possibility for a comprehensive, medium-term program had been sufficiently explored. An extended arrangement would appear to be better suited to deal with the structural problems that had become more acute after the completion of the previous program. It had been acknowledged by the staff that a sustainable and viable position could be achieved only in the medium term, after the short-run financial imbalances had been addressed. Hence, the authorities had rightly focused their attention on structural problems for 1984, and it would be advisable in the circumstances to provide an appropriate framework for Fund support, perhaps in the form of an extended arrangement.

It was in the context of the medium-term perspective that he welcomed the measures being implemented by the authorities to encourage agricultural production by ensuring adequate price incentives to the farmers, Mr. Sangare remarked. The successive price adjustments that had been made between April 1980 and April 1983 had gone a long way toward maintaining adequate price incentives; however, the vagaries of the weather in the Sahel posed a serious threat to steady rain-fed agricultural production, and he would therefore encourage the authorities to continue to review producer prices in 1984.

In order to achieve the long-term development objectives in the 1981-85 Development Plan, a coherent investment program should be worked out promptly, Mr. Sangare considered. The scheduled review of the Plan, together with the measures being contemplated to strengthen the planning system with the assistance of the World Bank, should be helpful in that regard. As pointed out by the staff, coordination with the World Bank should also improve project selection and help the authorities to monitor the flow of external financial assistance.

In the previous program, significant adjustment had been achieved in the fiscal area, Mr. Sangare recalled. The consolidated government deficit had been reduced to only 1.5 percent of GDP, and domestic bank credit to finance the deficit had been contained within the limits set out in the program. However, fiscal imbalances remained. They were predominantly structural and related mainly to the public enterprises, which continued to incur heavy losses. If the proposed program were successfully implemented, further progress should be made toward reducing the fiscal imbalances of the public enterprise sector. Also, the reorientation of the parastatal sector currently under way should be helpful in minimizing the need for budgetary support. In particular, the authorities were to be commended for having taken bold steps to wind down the nonstrategic public enterprises and sell them to the private sector. Furthermore, the fiscal and accounting reforms already implemented, together with the adoption of a more flexible system of price controls and the strengthening of management boards, should help to make the public sector enterprises self-supporting.

In drawing up the quarterly ceilings on domestic bank credit, the staff had adopted reasonable flexibility, Mr. Sangare noted. The lower limit should provide sufficiently early warning to allow the authorities

time to take corrective measures. However, he hoped that the lower limits were not so tight that they discouraged growth of domestic credit to the more productive sectors. The staff should consider extending the flexibility employed in Mali's case to other programs. Finally, the authorities should be commended for their progress in reducing external arrears, which he was confident would be eliminated within a reasonable time, thus allowing the authorities to pursue their economic growth objectives while boosting external confidence and attracting continued support for Mali's development efforts.

Mr. Suraisry said that he was in general agreement with the staff analysis and could support all the proposed decisions, including that on Mali's request for a stand-by arrangement. It was encouraging to note that the 1982 economic and financial program had been successful. The authorities should be congratulated for their role in that success, and he agreed with the staff that they deserved the continued support of the Fund. While their cooperation with the Fund had been good, positive developments on the inflation, public finance, and balance of payments fronts had been registered, the economy was still not back on track; further restructuring and rehabilitation efforts needed to be made.

The economic strategy that the authorities were undertaking rightly emphasized the agricultural sector, Mr. Suraisry continued. Many incentive measures had been taken--particularly on prices--to increase the contribution of the agricultural sector. While there was obviously room for further improvement, the authorities' argument with regard to cereal prices, especially rice prices, had been convincing; increasing such prices at present could make it difficult to maintain the goal of continuing with the wage freeze until 1985.

Greater emphasis should be placed on improving the rural development agencies, Mr. Suraisry remarked. A substantial improvement in the organization of those agencies and in their management was a necessary condition for exploiting the full potential of the agricultural sector. Limitations on financial resources and skilled personnel remained serious obstacles; in that regard, further assistance from donors and from international financial institutions would be helpful.

Rehabilitating the public enterprises was of particular importance to the improvement in the financial side of the economy, Mr. Suraisry commented. The authorities' adoption of more of the recommendations in the World Bank-sponsored report was an important step in the right direction. He encouraged them to continue along the same path.

With regard to employment policies, Mr. Suraisry observed that the termination of the old system of automatic recruitment of all graduates of the higher education system into the civil services should improve the financial situation of the Government and public enterprises. The qualification exams could also improve the efficiency of those enterprises by bringing in more qualified staff. Also, since tax rates were high, the effort to strengthen the public finances would have to be directed toward

improving the tax administration and allocation system and rationalizing expenditure. He agreed with the staff on the importance of preparing an annual investment budget, a move that the authorities apparently intended to initiate in 1985.

On credit policy, Mr. Suraisry commended the authorities for the prudent approach that they had followed in 1982; for 1983, the overall credit policy also seemed appropriate. On the external side, he welcomed the expected improvement in the balance of payments in 1983 and over the medium term. The external debt structure remained favorable; however, it was important to keep the debt burden in line with the country's capacity to service its debt. The performance criterion on net external borrowing was important in that regard. In sum, the proposed stand-by arrangement was strong and comprehensive and addressed the main weaknesses in the economy. It should help the authorities in their efforts to reduce the financial imbalances, consolidate what had been achieved under the preceding arrangement, and speed up the restructuring and rehabilitation process.

Mr. Erb considered that the proposed stand-by arrangement was an appropriately designed follow-up to the previous arrangement. He was in broad agreement with the staff appraisals in the two papers and could support the proposed decisions. He was pleased to note that Mali's medium-term balance of payments should be significantly improved after the two Fund arrangements; however, debt service obligations to the Fund over the medium term would be quite high in the years 1985-87, when more than 52 percent of total debt service would be owed to the Fund. Mali had received, and was expected to continue to receive, relatively large flows of external assistance in the form of grants and loans on concessional terms. In view of the nature of the structural problems facing the economy and the time horizon required to effect the necessary changes, such a mix of financing was entirely appropriate and desirable.

It was to be hoped that the extensive involvement of the World Bank in Mali would aid in the resolution of the economy's structural problems, Mr. Erb continued. The process of rehabilitating the key public enterprises had to be substantially enlarged and reinforced during the program period and beyond; in particular, decisive actions with respect to SOMIEX and Air Mali were needed. Like others, he noted with some concern that pricing policies required further improvement. While he could understand the authorities' fear that further price adjustments, particularly at the retail level, would make the current wage freeze more difficult to sustain, he continued to feel that the key to structural improvement in Mali's productive sector was the adoption of market-determined prices, which should encourage resources to flow to the most productive sectors and increase the likelihood of real wage increases over time. Such changes should help to improve Mali's balance of payments and growth potential, and it was thus in Mali's own interest to implement them as soon as possible.

Mr. Prowse observed that Mali was a poor country with a low per capita income and a resource gap equal to 19 percent of GDP. He was thus

happy to see that the Fund and World Bank were cooperating on Mali's case. He could support Mali's request for a stand-by arrangement because the previous program had been implemented successfully and because the the proposed program seemed to be without weaknesses.

Commenting on the staff papers, Mr. Prowse said that he had found it difficult to know which of the various external debt ratios be should be focusing on. While he was certain that each was conceptually sound, he would have preferred a single figure on which to base his analysis. In any event, the program's longer-term objectives for external debt seemed appropriate. He was pleased about the proposed reduction in arrears, although he noted with some concern that the debt ratio was likely to peak in 1987/88. There was a need in the circumstances to consider whether the profile of external debt could be varied.

On a technical matter, Mr. Prowse noted that Table 9 of SM/83/190 set out quantitative performance targets, including an upper and lower limit for bank credit to the economy. He was uncertain whether the dual limits were common to other Fund programs; if they were not, it would be helpful to know whether they might have wider application. As he understood it, the limits had been adopted in Mali to cater to seasonal fluctuations in credit to the agricultural sector. However, Directors would observe that the lower limit was really the effective limit, and the upper limit was designed to deal with seasonality. It was interesting that, if the lower limit were exceeded, the country was obliged to consult the Managing Director. The approach added a measure of flexibility but did not reduce the Fund's capacity to monitor developments in the credit area.

With regard to the suitability of an extended arrangement in Mali's case, Mr. Prowse considered that the judgment of the staff to go with a stand-by arrangement was appropriate. As yet, there was no investment budget, and the five-year Development Plan was rudimentary at best. Moreover, the authorities themselves would no doubt acknowledge that they were not well equipped, statistically or otherwise, to prepare the sort of program and targets that an extended arrangement would have required. It might well be that the preparations for an extended arrangement would be in place at the conclusion of the stand-by program, but the decision to go with a stand-by arrangement in present circumstances had been the correct one.

Mr. Scholten said that, like others, he could commend the authorities for having implemented needed structural adjustment policies and could support the proposed decisions. The extent to which the staff, and the program itself, had dealt with detailed microeconomic policies was striking; in the areas where the Fund was most competent, the policies seemed to be well on track.

Having projected an overall balance of payments surplus at the time of the consultation, the staff had more recently envisaged deficits ahead, although still quite small ones by comparison with the proposed

drawings, Mr. Scholten continued. The staff had indicated that a large part of Fund credit would be used to finance the repayment of arrears. However, it was possible that the Fund drawings would result in sizable increases in gross reserves. That was not to say that Mali had no need for a program, that the amounts were too high, or that the program itself was inadequate. On the contrary, Mali's active and seemingly appreciated cooperation with the Fund could in practice be established only in the context of a Fund arrangement, and the currently favorable balance of payments outlook should not conceal that reserves remained quite low, and that adverse developments, though not expected, could hit the economy again, thus creating a need for amounts as large as the proposed credit. In the circumstances, it might be better if Mali used the stand-by arrangement in the true sense of the word and did not draw the full amount available, unless absolutely necessary, especially since the terms of the Fund credit were higher than the average interest and maturity of Mali's present debt and could impose a heavy burden on the economy. By limiting its drawings under the program, Mali would retain the advantages of cooperation with the Fund together with a stand-by line of credit that could be prolonged for a considerable period. In that regard, he wondered whether the authorities would have the right to defer their first drawing until 1984, thus benefiting from the lower rate of charge associated with the new mix that, it was expected, would be agreed by that time.

Mr. Schneider stated that he too could support Mali's request for a new stand-by arrangement. Under the previous arrangement, impressive improvements had been made in the management of the economy, which had long been based on nonmarket principles. The elimination of price constraints had led to an immediate reaction on the supply side, and it was heartening to see how adequate incentives could produce adequate supply responses in a relatively short time. The staff should be congratulated for having convinced the authorities to alter the economic approach that had been followed over a long period.

He was in full agreement with the staff's appraisal of the proposed program, Mr. Schneider went on, noting that Mali presented a good case for successive one-year arrangements incorporated in a medium-term adjustment framework. The new program would build on the results achieved under its predecessor and would broaden the structural changes already initiated. In such cases, the Fund should provide the critical mass of financing to persuade the authorities to persevere in their adjustment effort; while the critical mass had been achieved in Mali's case, he had the impression that the proposed amounts were on the moderate side. Indeed, the present program provided resources equal to only 100 percent of present quota, or 79.7 percent of the new quota for an 18-month program, which actually covered almost two years. Given the positive performance under the previous program and the strong foundation of the proposed program, he would have thought that a larger amount of financial assistance would have been warranted.

Of course, Mr. Schneider concluded, Mali received an impressive amount of assistance on concessional terms; as a result, with a resource gap between domestic investment and savings of about 20 percent, the authorities had been able to maintain a debt service ratio below 5 percent. It was to be hoped that such favorable conditions would be maintained in future. Still, a larger amount of Fund assistance, even though it was more expensive, would have permitted a greater buildup in gross official reserves than the program envisaged. Finally, he wished to commend the generosity of the French Treasury in consolidating the short-term liabilities of the Central Bank of Mali in the form of an intergovernmental loan at favorable terms so that Mali could join the West African Monetary Union without the burden of a heavy debt.

Mr. Wang stated that, like others, he could support the proposed decisions.

Mr. Malhotra said that he too could warmly endorse the proposed decisions. The program to be supported under a stand-by arrangement with the Fund was an appropriate follow-up to the previous program, which had been satisfactorily implemented. However, like Mr. Grosche, he wondered whether an extended arrangement might not have been preferable.

Mr. Salehkhou remarked that the determination of the authorities in undertaking further adjustment measures under the proposed program made him optimistic about the meeting of the new program's performance targets. Like others, he could warmly support the proposed decisions.

The staff representative from the African Department, responding to questions about Mali's pending membership in the West African Monetary Union (WAMU), observed that Mali's entry into WAMU would not be effective until mid-1984 because it would take time to organize the currency exchange and to prepare the financial arrangements necessary to integrate the Central Bank of Mali into the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). The review of the stand-by arrangement would begin in mid-June 1984, in the context of Mali's membership in WAMU. As Executive Directors had noted, Mali's entry into the Union would not modify the exchange and trade system, although it would strengthen Mali's financial structure and monetary policy through an increase in the interest rate and by regulating access to the rediscount facility.

At present, Mali was not in position to meet the basic requirements for membership in WAMU without financial assistance from France in the form of a consolidation of the external debt--about $150 million--incurred under the Operations Account of the French Treasury, the staff representative continued. The terms of the consolidation were not yet known, although it was clear that they would be favorable; indeed, they would apparently lead to a reduction in the debt service ratio and an improvement in the current account. Still, the improvement would not reduce the need to implement the program and improve further the financial situation of the public enterprises.

With regard to questions on the viability of the balance of payments in the medium term, the staff representative noted, prospects for Mali were relatively good, although they were based on clearly defined assumptions, one of which was the maintenance of normal weather during the period. It was difficult for the staff to incorporate in a medium-term forecast fluctuations in weather conditions; past trends could not be extrapolated, in view of the large investment under way in certain areas and the improvement in the production incentives, which had been strengthened over the past two or three years. The most recent information available indicated that rain over the past few weeks had been insufficient and that the production of cereals in certain areas would suffer, but not in the major producing centers.

Another assumption was a continued implementation of the strong structural adjustment measures included in the program, together with cautious income, credit, and budgetary policies, the staff representative remarked. The projections for exports, imports, and capital inflows were relatively firm. Forecasts for exports, for example, were based mainly on the expectation of a 10 percent yearly increase in cotton production because of the new investment project and the reorientation of the cotton sector, including a further increase in producer prices in 1984, the establishment of a reserve stabilization fund, and a new financial mechanism for the distribution of export proceeds. Another positive element in the export picture was the expected doubling of gold production over the next few years. Forecasts for imports were based on Mali's potential for import substitution, and the expectation that Mali would be able to mobilize a significant volume of highly concessional foreign inflows was based on the strong adjustment effort currently under way as well as on a detailed survey made by the staff at the time the program had been drawn up. Sustained inflows should permit the maintenance of a relatively high level of investment--at about 18 percent of GDP for the next four or five years--which would be more efficient than in the past because of the strengthening of economic management.

In reply to questions on the implications for Mali of different mixes between ordinary and borrowed resources, the staff representative explained that, under the existing mixing procedures, Mali would purchase approximately SDR 5 million in ordinary resources and SDR 35 million in borrowed resources over the life of the program. If the simplified mixing procedures were adopted immediately, Mali would save SDR 2.4 million in charges; as matters stood at present, it was expected that the first purchase would be under the original mix but that remaining purchases would be under the simplified mix, which would still save Mali about SDR 1.6 million in charges.

On Mr. Prowse's questions regarding the debt service ratio, the staff representative observed, the appropriate ratio was that referred to in EBS/83/242. It was based on the latest and most reliable data and used as the denominator gross transfer receipts instead of net transfer receipts.

In response to questions on the two-tiered credit ceiling, the staff representative from the African Department noted that, when the program had been negotiated in September, it had been impossible to determine the credit financing requirement for the 1983/84 crop. Crop financing was a type of credit that was reversible and was generally freely extended by the banking system on the basis of volume to be marketed. The staff had determined a minimum level of crop financing on the basis of the expected level of production to be marketed and had added to that figure a small margin to take account of possible delays in the marketing of production or changes in the volume that was expected to be marketed. The sum of the ordinary credit plus the crop financing--including the special margin--constituted the upper credit limit, which was the performance criterion. However, as noted in the paper, any increase in credit over the minimum ceiling would prompt a discussion with the Managing Director on the reason why the crop financing requirement had been higher than initially expected. Finally, on a question raised by Mr. Scholten, he noted that Mali would have the choice of purchasing Fund resources immediately under the old mixing proportions or waiting until the simplified proportions were adopted; however, he assumed that Mali would choose to draw immediately because the authorities needed resources to meet the end-December performance criterion regarding the reduction of arrears.

The Deputy Director of the Exchange and Trade Relations Department, responding to questions regarding Mali's access to Fund resources, observed that Mali would be eligible for purchases equivalent to about 80 percent of the new quota over an 18-month period, which meant access of 50-60 percent of new quota at an annual rate. While the proposed amount might be considered moderate by some, it had been determined in the light of Mali's balance of payments need during the program period and the nature of the adjustment effort. Mali had in the past demonstrated--and was expected to continued to do so in future--an ability to induce a sizable inflow of transfers and highly concessional financing in the context of adjustment programs with the Fund, and the staff had taken that fact into account in determining access to Fund resources under the proposed arrangement. In addition, over time, a growing part of Mali's debt service would be to the Fund, reaching approximately 50 percent over the next few years. The authorities and staff had thus agreed that it might not be prudent to stretch access limits too far in the present case.

With regard to the suggestion by some speakers that an extended arrangement might have been more appropriate in Mali's circumstances, the Deputy Director noted that a number of structural matters needed to be resolved, and certain prerequisites for an extended arrangement needed to be met. For example, the Government had not yet prepared an investment budget, and extensive progress had not been made in developing medium-term objectives. Moreover, as Mr. Suraisry, Mr. Prowse, and others had indicated, there was some question about the capacity of the administration in Mali to monitor an extended arrangement. The staff remained open minded about the possibility for such an arrangement in future as Mali developed a more efficient investment proposal and filled in the gaps in

its administrative machinery; in the meantime, the staff would commend the authorities' intention to strengthen their track record and continue their efforts to resolve structural problems.

In response to a question by Mr. Prowse on the two-tiered limit on bank credit to the economy, the Deputy Director observed, a similar approach had been used in other cases in the past. Experience suggested that there were some drawbacks: the lower limit tended to become the minimum, and there was also some danger of ambiguity in establishing the limits. For example, there was a temptation to set the upper limit on the high side, and, if the target was met, the amount of credit could prove to be excessive. The other temptation was to set the lower limit somewhat on the low side; if that limit were observed, the program could be unduly constraining. In Mali's case, the staff had the impression that the approach was working well, although there were other techniques that could be applied to deal with concerns about the variability of crop credit financing. For example, there had been occasions where the staff had built in an automatic adjustment to the credit ceilings for unexpected developments; moreover, the Fund had the ability to waive a credit ceiling when crop production exceeded expectations and the credit ceiling was temporarily exceeded. Also, there were means other than two-tiered credit targets by which programs could be monitored. The Executive Board had recently considered a case in which a consultation with the Managing Director would be called for if the monthly target for the public sector borrowing requirement were exceeded.

Mr. Alfidja remarked that the relationship between employment and wage policy in Mali was a sensitive and complicated issue and was one of the points on which discussion between the staff and the authorities would be continuing. However, the decision of the authorities to discontinue the automatic hiring policy was a courageous one, and its effects should not be underestimated, although they would become evident only in the longer term.

On the decision to go with a stand-by rather than an extended arrangement, Mr. Alfidja recalled that, in the early stages of negotiations leading to the first stand-by arrangement with Mali, the authorities had indicated a desire for an adjustment program in a medium-term framework. For various reasons--some of which had already been mentioned by the Deputy Director of the Exchange and Trade Relations Department--an extended arrangement had not been considered feasible. It was true that, at present, an investment budget was not in place, but the authorities hoped to produce an acceptable investment budget over the next few months. He could not agree with the suggestion by the staff that there were no medium-term objectives for the economy. Such objectives existed as an integral part of the 1981-85 Development Plan; and, with the aid of the World Bank, the authorities were in the process of defining necessary structural adjustments in the public sector in a flexible medium-term framework. He also had some difficulty with the suggestion that the authorities did not have the capacity to monitor an extended arrangement.

Certainly they had shown their ability to monitor a stand-by arrangement successfully, and it was unclear what additional capabilities were required for the monitoring of a medium-term adjustment program.

The Deputy Director of the Exchange and Trade Relations Department observed that, in the case of an extended arrangement, a wider range of projects and policies would need to be monitored, and the manpower requirements for such monitoring were heavy. The World Bank was working closely with the Malian authorities on those matters and was in contact with the Fund staff as well.

The Chairman noted that Mali's request for a stand-by arrangement, including purchases under the enlarged access policy, had raised a number of questions of principle and, particularly with respect to the amount of access proposed, showed the limits of taking a mechanical approach to determining access. In his own view, the amounts were rather on the high side. Mali certainly had a balance of payments need, but its capacity to pay the charges attached to the resources was limited; indeed, in the years 1985-87, Mali's debt servicing capacity would be heavily absorbed by repurchases and charges to be paid to the Fund.

When the stand-by arrangement in 1982 had been negotiated, the Chairman went on, it had been considered necessary to set access equivalent to 75 percent of Mali's quota in order to show the Fund's commitment to the program and to encourage the authorities to take the needed difficult decisions to put the economy back on the right track. The percentage, on an annual basis, had been reduced under the proposed program after staff and management had carefully reviewed the financial constraints and the ability of the country to service its debt.

The Chairman then made the following summing up:

> Executive Directors generally concurred with the thrust of the staff appraisal for the 1983 Article IV consultation with Mali and supported Mali's request for a stand-by arrangement.
>
> Directors expressed satisfaction that, during 1982 and 1983, substantial progress had been made toward restructuring and rehabilitating the economy and that the authorities had implemented most of the measures contained in the stand-by arrangement that had expired in May. They cited the strengthening of fiscal management, the restrained income and credit policy, and the reduction in payments arrears; they also noted that the resumption of growth in agriculture had been stimulated by improved price incentives and the liberalization in marketing arrangements.
>
> Directors welcomed the measures recently taken to reduce excessive public consumption; in particular, they commended the authorities' efforts to contain personnel expenditures--including the termination of automatic hiring policies--which had in the

past absorbed an excessive part of budgetary resources. They urged the authorities to implement those courageous reforms fully and rapidly so as to provide room in the budget for needed maintenance costs and investment outlays.

Directors viewed with concern the lagging pace of policy implementation toward reform of public enterprises and stressed that the rehabilitation of those enterprises--in particular, Air Mali and SOMIEX--and the widening of the role of the private sector were crucial for the strengthening of the Malian economy. While welcoming the steps already taken in public enterprise reform, Directors believed that a determined, concrete, and comprehensive effort would be required in future; the envisaged reviews would have to concentrate on the precise follow-up actions to be taken by the authorities toward that end. The pace of adjustment should be increased under the new stand-by arrangement if Mali was to promote a sustainable rate of growth over the medium term. Directors also emphasized the importance of continued progress toward eliminating domestic and external arrears.

Directors welcomed the improvement in the balance of payments for 1983 and noted that prospects for the years ahead appeared relatively favorable. They observed that Mali had been successful in attracting substantial external support on concessional terms and considered that the burden of external debt should be manageable over the medium term, assuming a satisfactory completion of the bilateral debt renegotiations currently under way and the realization of a number of basic assumptions, particularly those regarding the weather. They stressed, however, that there was no room for complacency, in view of Mali's need to strengthen its external reserves position and to eliminate arrears. They also pointed to the need to strengthen debt management policy and administration.

The recent decision of the Heads of State of the West African Monetary Union to integrate Mali into the Union was noted and commended.

Finally, Directors looked forward to monitoring Mali's progress under the reviews of the stand-by arrangement. The next Article IV consultation with Mali is expected to be held on the standard 12-month cycle.

The Executive Board agreed to return to the proposed decisions on the Article XIV consultation and the stand-by arrangement in the afternoon, once agreement had been reached on a decision applying the terms of the enlarged access policy to Mali's request for a stand-by arrangement.

4. ICELAND - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Iceland (SM/83/236, 11/14/83; and Sup. 1, 12/5/83). They also had before them a report on recent economic developments in Iceland (SM/83/238, 11/17/83).

Mr. Tvedt made the following statement:

I would like to thank the staff for the set of very clear papers on Iceland. My authorities agree with most of the analysis contained in the papers and value highly the good advice of the staff.

Over the past two or three years, the Icelandic economy has faced a combination of a fall in the fish catch and weak export demand. This in turn has led to a fall in GNP, and, until this year, a widening of the current account deficit. In the 1970s, the economy grew by an average of 4.7 percent a year, but, in 1981, the growth rate fell to 1.6 percent; it turned negative by 2 percent in 1982, and a further decline of 5.5 percent is expected this year. This adverse growth performance has its roots in sharply reduced exports. Metal exports were severely affected by the world recession and supply constraints, and adverse climatic conditions in the fisheries resulted in sudden declines in fish catches. Due to the unforeseen weakness of the stock, capelin fishing was banned altogether for conservation reasons in 1982 and has only recently been resumed. This was a major setback, as only four years ago capelin products accounted for over one fifth of the value of fish production. Even more serious has been the unexpected fall in the cod catch, the mainstay of Iceland's exports. It fell from a peak of 460,000 tons in 1981 to 380,000 tons in 1982, and is not expected to reach 300,000 tons this year. This fall in the cod catch was unexpected, not least in view of the fact that Iceland has followed a careful fisheries policy in order to ensure the maintenance of a stock size that would support steady development in the fisheries sector. Despite some recovery of the metal markets, a substantial shortfall in overall export production has emerged this year, which has led the authorities to approach the Fund concerning possible further purchases under the compensatory financing facility.

The export production and marketing difficulties in 1981 and 1982 were in part exacerbated by considerable changes in the real exchange rate of the króna, which stimulated imports in 1981 and early 1982, as the króna rose in relative value. Subsequently, there was an offsetting contraction through a real depreciation of the króna. In addition, net interest payments abroad have increased strongly since 1980. These developments produced a current account deficit equivalent to 5 percent of

GNP in 1981 and 10 percent in 1982, whereas for several prior years, the current account had been close to balance. Inflation gained momentum during 1982 and the first months of 1983. By April, it was clear that inflation was heading for a rate well in excess of 100 percent a year. The process of inflation in Iceland had evolved into one by which wages were adjusted to prices every three months. Fish prices were raised roughly in concert, and the krona was depreciated continuously to protect the competitive position of the export sectors. Assuming acquiescent fiscal and monetary policies, the spiraling effect of this process meant that the annual rate of inflation could well have remained above 100 percent and continued to rise. This prospect implied increased uncertainty for economic activity and serious liquidity problems in industry, with risks of stoppages in key sectors, particularly when these problems were superimposed on a shortfall in fish catches and marketing difficulties for major fish products. It was also clear that inflation at these high rates would create--and had already created--distrotions in relative prices because of fortuitous istitutional circumstances and timing of decisions on administered prices.

Following parliamentary elections, a new government took office on May 26 and immediately introduced a comprehensive stabilization program. The main elements of the program were the following: (a) The krōna was devalued by 14.6 percent; (b) all indexation of wages and earnings was suspended as of June 1, 1983 for two years; (c) all wages were to rise by 8 percent on June 1, and by 4 percent on October 1. Agreements on wage increases in excess of these ceilings, irrespective of whether they were entered into before or after the law came into effect, were banned up to February 1, 1984; (d) the effects on the wages of low-income wage earners were partly mitigated through fiscal measures. As is clear, these measures were by their nature aimed at the most immediate difficulties. They were designed to reduce the rate of inflation, strengthen the competitive position of industry and the current account position, and avert umemployment.

Through the summer months, inflation remained at a very high level as the effects of the devaluation and of pent-up price increases, e.g., considerable increases in various public tariffs and utility charges, worked their way through the system. However, since August, inflation has come down very rapidly and has in the three months from the beginning of August been some 25-30 percent at an annualized rate, and the latest forecasts indicate that by the end of the year it will be in the range of a 20-25 percent annualized rate. The competitiveness of industry has improved, but important structural problems still remain in the fisheries sector. The current account deficit is now forecast to be some 2-2.5 percent of GNP this year, which represents

a significant improvement equivalent to 7.5-8 percent of GNP over last year. This improvement will be achieved without any resort whatsoever to protectionist measures, and the authorities indeed underscored their commitment to a free trade and payments system by abolishing a 10 percent tax levied on foreign exchange purchases for travel purposes, lowering some import duties, and accepting the obligations under Article VIII of the Articles of Agreement of the Fund last September. Unemployment, which has remained at about 0.5 percent of the labor force over the past 15 years, has risen slightly and will be at about 1 percent on average for the year as a whole. The statutory wage policy has resulted in a sharp fall in real per capita household incomes, which are now expected to be 13 percent lower on average this year than last year.

Following the impact of the initial measures, the authorities have declared their intention to strengthen all the major areas of economic policy as indicated in the staff supplement issued this week. Their principal objectives for 1984 are to lower inflation to below 10 percent by the end of the year and to bring about an approximate balance on the current account of the balance of payments while maintaining high employment. In the national budget for 1984, the authorities stated that wage increases of roughly 6 percent in 1984 would be consistent with these objectives (average in 1984 compared with the turn of the year).

In monetary policy, the authorities have lowered nominal interest rates three times in the past three months. During the consultations, the staff expressed some concern about the intentions of the authorities in this area, warning against premature decreases in interest rates. However, despite the reductions, there has been a considerable shift away from indexed instruments into nonindexed accounts, which clearly indicates a break in inflationary expectations. Even after the three reductions in nominal interest rates, the effective annual yield on virtually all instruments in the banking system remains above 30 percent, the only exceptions being general savings deposits available on demand, which carry an interest rate of 27 percent a year, and checking accounts. With the three interest rate changes, the interest rate differential between rediscounts and other loans has been sharply reduced, as noted in the staff supplement. Given the annualized inflation rate since August, virtually all interest rates are positive in real terms. Besides wishing to lower interest rates promptly with the falling inflation rate, the authorities deemed it essential to demonstrate their own firm confidence in the effectiveness of their policies and to contribute to the building of a general consensus on the continuation of the adjustment policies beyond the initial months. Moreover, the authorities have stated their intention to pursue a flexible interest rate policy based on maintaining positive real interest rates.

The growth rates of the major monetary aggregates have remained high throughout the fall. This can partly be explained by the fact that financial assets have become more attractive in an environment of sharply reduced inflation. However, the monetary growth can also be attributed to excessive credit expansion through the summer and fall. To some extent, the rapid credit expansion can be explained by institutional factors such as the inflation adjustment on outstanding loans, which is still influenced by the rapid inflation rate earlier in the year. The commercial banks have recently agreed to curtail their lending activity significantly in the months ahead. Furthermore, a substantially higher level of real interest rates can be expected to reduce the excessive demand for credit, particularly in the household sector. In order to gain stronger control over the growth of monetary aggregates, the Central Bank has moved to tighten even further the access of commercial banks to its facilities. Witness to this is the penalty rate on overdrafts in the Central Bank, which can range from 60 percent to over 100 percent a year. As stated in Supplement 1 to SM/83/236, authorities have also moved to increase the variety of government bonds to be sold to the nonbank public.

In the fiscal area, the authorities have strengthened their policies considerably and presented a balanced central government budget for next year. Most areas of central government expenditure will be reduced, investment expenditures in particular.

The authorities remain committed to the maintenance of the present competitive position and have, within the broad framework of the national budget, authorized the Central Bank to alter the exchange rate next year within a band of 5 percent up or down. These limits will be subject to revision only if there should be a major change in the external environment of the economy.

The key to achieving the inflation target for next year rests with wage developments. All contracts expire at the end of January. Negotiations on new contracts have not started. There are indications--from public opinion polls, for example--that the policies of the Government enjoy wide support, which augurs well for moderate wage settlements in early 1984.

An important objective of the adjustment effort has been to decrease the reliance on foreign borrowing. At the end of this year, the debt/GNP ratio is expected to reach 60 percent, but due to the relatively favorable structure of the debt, the service burden is only slightly above 20 percent of export revenue. Furthermore, most of the foreign debt is project related. On the whole, the external debt situation--however burdensome--is both manageable and well managed. The authorities intend to lower the debt ratio in coming years.

Since the issuance of the main papers, the outlook for cod fisheries in 1984 has deteriorated, and, for stock preservation reasons, cod catches may have to be reduced to between 220,000 tons and 250,000 tons. This reduction would be partly offset by intensified efforts in other areas of fishing, but would most likely be reflected in some weakening of the current account from what was assumed in the national budget. This new development has only strengthened the resolve of the authorities to deal effectively with the problems confronting the economy, and they remain fully committed to their adjustment policy and the inflation targets for next year. Consequently, the wage target may have to be revised downward. Additional policy responses are being developed. They will imply both a structural adjustment within the fisheries sector and a reassessment of the adjustment policy stance.

Prospects beyond 1984 are difficult to assess in any detail. Over the longer run, the rich fisheries and the energy resources ought to assure a relatively prosperous future. Energy resources are ample; in fact, less than 10 percent of the economically exploitable hydropower has been harnessed, and probably less than 1 percent of the geothermal power. The new export industries--aluminum and ferro-silicon--have had their share of difficulties, and their future is intimately linked to a sustained recovery of world economic activity. At least temporarily, fishing is less bountiful than had been hoped for. High real interest rates on the international capital markets and difficulties in some export markets have also hampered growth. The resumption of economic growth is likewise contingent upon an improved domestic economic policy performance, the foundations of which have been laid.

In recent years, the Government has been actively engaged in the determination of prices through various price control arrangements. The authorities have declared their intention to reduce the role of the Government in determining prices. Direct price controls will be lifted and market forces allowed to determine prices wherever possible.

Structural problems prevail in the fishing industry, mostly in the form of overinvestment in fishing vessels. The Government has begun to seek ways to alleviate this problem.

In the medium term, the Government will rely on a sustained policy of moderate increases in public sector pay, and declare its views on similarly moderate income developments for the private sector. This policy will be supported by restraint on public expenditures and a firm monetary policy. The illustrative medium-term debt projections of the staff, which are of course sensitive to changes in underlying assumptions, provide some insight into the constraints facing policymakers in the years ahead.

Finally, my authorities have no objection to the next Article IV consultation being held on the standard 12-month cycle.

Mr. Grosche agreed with the staff that the policy response to the various difficulties confronting the Icelandic economy had for some time been inadequate. Nonetheless, he was heartened by the measures introduced in June 1983 and by the Government's intention to strengthen monetary and fiscal policies. The accommodating nature of monetary policy in Iceland should be changed; in particular, it was important to abolish the easy access of banks to central bank credit if any lasting success on the price front was to be achieved. Mr. Tvedt's indication that new measures had been taken toward that end was welcome, but he would appreciate hearing whether the staff considered the current stance of monetary policy to be appropriate.

The emergence of a significant budget deficit financed by foreign resources was also a matter of concern, Mr. Grosche said. The quick elimination of that deficit would contribute to an easing of internal and external imbalances, and the authorities' intention to cut expenditures in 1984 in order to balance the cash position of the Treasury seemed to go in the right direction. Also, an appropriate competitive position should be preserved in order to ensure equilibrium in the balance of payments. Competitiveness could be improved by smooth adjustments in the exchange rate, although such an approach would be a second-best solution; it would be preferable if the same goal could be attained through soundly framed financial policies that would, by themselves, lead to an abatement of cost and price pressures.

On a related matter, Mr. Grosche considered that the movement toward a reduction in real wages and income experienced in 1983 should not be reversed in 1984. Further changes in output and GNP must necessarily be matched by changes in real income; otherwise, inflation would again rise and the external imbalances would again begin to deteriorate. He was happy to note from Mr. Tvedt's statement that the Icelandic authorities would be working to ensure that real wages would not increase in 1984. Their efforts toward that end would be particularly important if they were to contemplate further use of the compensatory financing facility.

Mr. Clark observed that the Icelandic case was a good example for others of what could be achieved in the way of curbing inflation through a rigorous pay policy combined with the elimination of indexation. Still, a number of problems remained to be resolved. The first, and perhaps the most disturbing, was the outlook for the cod catch. As indicated in the supplement to SM/83/236, the catch was to be restricted to 200,000 tons in 1984, only half the catch recorded in 1982 and considerably short of the figure that had been assumed by the staff in its analysis. In view of the importance of prospects for the fishing industry, it would have been helpful if the staff paper had provided some further discussion of the long-term outlook, which currently seemed markedly less encouraging than the outlook in 1982.

A second problem concerned the level of external debt, which had risen to the equivalent of 60 percent of GDP, Mr. Clark continued. That development was particularly worrying in view of the export prospects of the fishing industry. Third, monetary policy had been lax in the past, with broad money growing by more than 100 percent at an annual rate earlier in 1983. He therefore welcomed the action taken by the authorities to introduce new government debt instruments, although it was not clear how rapid or powerful an effect the structural changes would have. There appeared to be a need for more immediate action and, in that regard, he could support the staff's caution in relation to further cuts in interest rates. In general, while endorsing the staff's assessment, he felt that, in light of the supplementary information recently circulated, the need for further action was perhaps more pressing than the staff had suggested.

Finally, on a presentational matter, Mr. Clark remarked that it had not been easy to assimilate the information in the staff paper, which contained 14 pages of text supported by only one table. It would have been better if more of the information in the paper had been presented in tabular form.

Mr. Schneider observed that, after a prolonged period of economic stagnation and high inflation in Iceland, some encouraging signs had been in evidence in recent months, thanks mainly to the determined action of the new Government to reduce the inflation rate, the external current account deficit, and the imbalances that had threatened the functioning of the domestic economy for the past two or three years. The staff had rightly pointed out that Iceland's indexation policy, together with a flexible exchange rate policy, had lowered the resistance of most economic agents to the reduction in inflation. Since the implementation of the strong corrective measures taken in May 1983 to redress the imbalances and diminish inflationary expectations, there had been a drastic decline in GNP and real disposable income. While those declines were regrettable, they were the cost that had to be paid to make progress in the shorter term.

Despite the impressive economic developments that had occurred in the short term, particularly with respect to inflation, the situation in Iceland would require further financial policy action in the medium term because the measures taken in May 1983 had been confined to the areas of exchange rate and incomes policies, Mr. Schneider continued. He was in agreement with the staff recommendations for further action and urged the authorities toward tighter financial policies. The control of monetary expansion would be a crucial element in the performance of the economy over the next few years, and the authorities' goal of reducing the inflation rate to below 10 percent by end-1984 would require an ambitious effort in the monetary area. As for the relationship between money and prices, it could be said that, with rates of monetary expansion that had hovered at about 80 percent in recent months, prices would continue to be affected for some time, even if the expansion slowed by the end of 1984.

Commenting on structural policies, Mr. Schneider noted that the prospects for the fishing industry made it vitally important for the authorities to diversify the export base and to reallocate resources to other promising sectors. Fishing and fish processing--representing about 20 percent of GDP and almost 75 percent of exports--played such an important role in the balance of payments that a careful approach to structural changes would be required. Whatever approach was chosen, it should include a gradual reduction in the share of imported energy and total energy consumption; exploitable hydropower and geothermal energy might be the best long-term solution. Unfortunately, such investments took a long time to complete and required additional foreign and domestic resources. Since one of the objectives of the adjustment effort was to improve Iceland's external debt situation and to reduce reliance on foreign borrowing, it would seem desirable to increase the share of domestic financing for all forms of investment.

On another matter, he had learned from Mr. Tvedt of the authorities' intention to approach the Fund concerning the possibility of further purchases under the compensatory financing facility because of the shortfall in overall export production that had occurred during the year, Mr. Schneider said. It was his understanding that such a request would increase the Fund's holdings of Icelandic krónur to the upper tranches of the compensatory financing facility. In view of the determined actions already taken by the authorities and the medium-term adjustment strategy planned for 1984, he would be willing to look at the request, if and when it was made, with an open mind.

Mr. Leonard considered that the policy package of May 27, 1983 constituted a watershed in the management of the Icelandic economy. The staff had rightly regarded the measures initiated at the time as a "forceful" response to difficulties that had become increasingly acute in the previous period and saw the authorities' action as leading to significant progress in adjusting the economy to the changes in its trading environment. At first glance, the targets that the authorities had set for themselves seemed ambitious, a view that was borne out in light of recent experience. The pursuit of greater stability in the exchange rate of the króna, the elimination of the current account deficit, and the winding down of inflation would not be easy to achieve even in the best of times. Against a background of frequent devaluation, large and rapid price rises, indexation of pay and interest rates, and easy monetary conditions, the task would be all the more difficult. While the momentum and pace of the preceding trends continued to be aggravating factors, there were good grounds for confidence that the authorities would be successful in their efforts. After all, they had properly analyzed their difficulties and established appropriate objectives, and they had demonstrated commitment in applying strong measures to achieve those objectives. The actions already taken were showing results, and the authorities had expressed a willingness to undertake contingent measures as warranted.

He was in full agreement with Mr. Grosche and the staff on the four areas in which progress was necessary for a return to balanced management of the economy, and he took note of the detailed action called for to meet those requirements, Mr. Leonard continued. He had found it difficult to tell in the staff report whether those requirements had been established by the authorities themselves or by the staff, but it was heartening to observe the extent to which the authorities had already embarked upon, or would soon undertake, the actions necessary to correct the situation. The supplement to SM/83/216, for example, indicated that the fiscal budget in 1984 would be in much better balance than it had been in 1983; the banks, in response to pressure from the authorities, had agreed to limit the growth of credit and to invest at least 4 percent of the increase in their deposits in government long-term bonds or related funds. Moreover, new money market instruments were being developed, interest rates were currently positive, and net foreign borrowing was to be reduced from SDR 106 million in 1983 to SDR 45 million in 1984. While it was difficult to tell at present what the outcome of the actions would be, it was clear that the elements of a good program were in place and that the authorities were fully competent to implement it; in the circumstances, he felt justified in expecting satisfactory results.

Iceland's likely approach to the Fund concerning possible further purchases under the compensatory financing facility was in order and merited a positive response, Mr. Leonard considered. In Iceland's case, he did not see a stand-by or an extended arrangement with the Fund as a requirement for access to the upper credit tranche of the compensatory financing facility, although he accepted that requests for such access should be looked at with particular care where a member's balance of payments problems stemmed from basic difficulties and where fundamental policy adjustments were needed to cope with them. The member had to be willing to indicate its intention to correct factors that had been at the root of its external problems. As noted in the guidelines approved by the Executive Board on September 14, 1983, "if a member's current and prospective policies are such as would, in the Fund's view, meet the criteria of the use of resources in the credit tranches, the member would be deemed to be satisfactorily cooperating with the Fund," which would seem to make Iceland eligible for access to the upper credit tranche of the compensatory financing facility. The staff seemed to be in agreement that the new Government in Iceland had settled on the proper measures to correct the external imbalances and was resolutely pursuing them; on that basis, the criterion for access to the upper credit tranche of the compensatory financing facility had been met.

Finally, Mr. Leonard noted, the task being undertaken by the authorities would require time. The staff report referred to the task as a "long and challenging" one and pointed to the need for supply-side measures to complement demand management. In that regard, while there was an obvious need to cut back on central government capital expenditure, it would be unfortunate if the emphasis were to remain for very long on investment. Present infrastructural needs appeared by no means to be satisfied; and they would necessarily increase in future to keep pace with the productive investment that would enlarge the supply of goods and services.

The Executive Directors agreed to continue their discussion at 3:00 p.m.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/169 (12/5/83) and EBM/83/170 (12/9/83).

5. KINGDOM OF THE NETHERLANDS - NETHERLANDS ANTILLES - TECHNICAL ASSISTANCE

In response to a request from the Netherlands for technical assistance, the Executive Board approves the proposal set forth in EBD/83/312 (12/2/83).

Adopted December 8, 1983

6. RELEASE OF INFORMATION - AD HOC REQUESTS FOR REPORTS ON RECENT ECONOMIC DEVELOPMENTS

The Executive Board approves the proposal set forth in EBD/83/280 (11/1/83) and Supplement 1 (11/7/83).

Adopted December 7, 1983

7. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 83/97 and 83/98 are approved. (EBD/83/305, 12/1/83)

Adopted December 7, 1983

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/285, Supplement 1 (12/7/83), EBAP/83/292 (12/2/83), and EBAP/83/295 (12/5/83), and by Advisors to Executive Directors as set forth in EBAP/83/292 (12/2/83) and EBAP/83/295 (12/5/83), is approved.

APPROVED: April 5, 1984

JOSEPH W. LANG, JR.
Acting Secretary