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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/171

3:00 p.m., December 9, 1983

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

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
	G. Ercel, Temporary
	X. Blandin
	J. Delgadillo, Temporary
R. D. Erb	
	S. R. Abiad, Temporary
	T. Yamashita
J. E. Ismael	
	L. Leonard
	H. A. Arias, Temporary
	G. Grosche
	G. Gomel, Temporary
	C. J. Batliwalla, Temporary
	J. E. Suraisry
	E. M. Ainley, Temporary
	M. Eran, Temporary
A. R. G. Prowse	
G. Salehkhou	
	S. M. Hassan, Temporary
	S. E. Conrado, Temporary
J. Tvedt	A. Lindø
	T. A. Clark
	Wang E.

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

Also Present

African Department: O. B. Makalou, Deputy Director; E. A. Calamitsis, C. A. François, L. Schmitz. Asian Department: H. O. Roden. European Department: P. L. Hedfors, H.-J. Huss, A. Knobl, S. Mitra, M. Rodlauer, K. A. Swiderski. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; M. Allen. Fiscal Affairs Department: G. Blöndal. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman. Middle Eastern Department: S. Thayanithy, G. Tomasson. Research Department: L. Alexander, N. M. Kaibni, P. R. Menon. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer; Q. M. Hafiz, G. Wittich. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: C. J. Batliwalla, L. K. Doe, K. H. Hansen, W. Moerke, Y. Okubo, D. I. S. Shaw. Assistants to Executive Directors: H. Alaoui-Abdallaoui, R. Bernardo, J. Bulloch, I. Fridriksson, D. Hammann, A. K. Juusela, H. Kobayashi, G. W. K. Pickering, A. A. Scholten, Shao Z.

1. ICELAND - 1983 ARTICLE IV CONSULTATION

The Executive Directors continued from the previous meeting (EBM/83/170, 12/9/83) their consideration of 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. Ainley remarked that, although the Icelandic economy was going through a difficult period, its position was far more encouraging than it had been a year previously. The far-reaching package of measures adopted by the new Government in May 1983 had led to a significant reduction in both the rate of inflation and the current account deficit. However, there was no room to relax the adjustment effort; inflation remained high, foreign borrowing had reached an unsustainable level, and the prospects for the fish catch were less favorable than they had been earlier in the year. In the circumstances, he welcomed the two objectives for 1984 of eliminating the current account deficit and bringing the rate of inflation to below 10 percent. The achievement of those objectives would require continued firmness in key areas of policy.

It would be essential, for example, to preserve the gains on the wage front when the present statutory incomes policy expired, Mr. Ainley continued. The wage negotiations set for early 1984 would be critical, not only for the outlook on inflation but also for employment prospects. He fully supported the authorities' decision to establish clear guidelines for the wage settlements and to set an example of wage moderation in the public sector.

To be effective, wage restraint would have to be supported by restrictive financial policies, Mr. Ainley considered. In that regard, he shared the staff's concern about the recent high rates of growth in the monetary aggregates, which seemed to be inconsistent with the objectives for 1984. The moves to restrict bank credit were, therefore, timely. He hoped that the authorities would also continue to examine the scope for more adequate controls on credit creation by the Central Bank. Like Mr. Clark, he welcomed the development of new debt instruments (mentioned in Supplement 1 to SM/83/236), which should make it easier to finance more of the public sector deficit by nonmonetary, and noninflationary, means. It would be interesting to hear more about the proposal to issue SDR-linked bonds and about why the authorities had chosen such a link.

On the fiscal side, Mr. Ainley noted, the budget for 1984 represented a significant shift toward restraint; however, virtually the entire burden fell on expenditure, particularly on investment expenditure. While there was little alternative to cutting back, he hoped that the reductions would be effected in ways that would minimize the impact on growth prospects over the medium term. He wondered whether there was any room to make the tax system more efficient, and he recalled in that regard Mr. Blöndal's interesting observations in a January 1983 departmental memorandum on the

the erosion of built-in fiscal stabilizers in recent years. It would be helpful, for example, to know why plans to introduce broadly based VAT and PAYE systems, while they had been considered, were unlikely to be implemented in the near future.

On the external side, Iceland's competitive position had improved considerably since 1981, Mr. Ainley observed. If the favorable position was to be maintained, a balanced combination of demand restraint and gradual exchange rate adjustments would be required. Such an approach should also provide the right framework for eliminating the current account deficit and reducing the heavy debt service burden over time. He welcomed the authorities' commitment to an open trading system--despite the external imbalances--their elimination of the remaining multiple currency practice, and their acceptance of the obligations of Article VIII. Finally, he had an open mind about a possible request for a further purchase under the compensatory financing facility. Information at present was limited, but Iceland's position should become clearer as developments in 1984 unfolded.

Mr. Prowse said that he too was in general agreement with the staff appraisal. As others had noted, the authorities had taken strong measures in May 1983, including a substantial devaluation and action to suspend wage indexation, which had led to a reduction in the current account deficit to about 2.5 percent of GNP for 1983, compared with a deficit of 7-8 percent of GNP in 1982. The objectives for 1984 should be attainable with the firm application of policies in place and the assurance that additional measures would be taken if warranted.

An interesting element of the policy package was the mix between exchange rate adjustment, inflation, real wages, and monetary policy, Mr. Prowse continued. It was noteworthy that the authorities in Iceland had consciously determined that the exchange rate would not be adjusted as a "soft" option to allowing wages to increase. Their approach, while it had its risks, was in his view well worth following. In that regard, it appeared that the staff was not quite as confident as the authorities about the effectiveness of the stabilization program, particularly in the absence of a tight monetary policy; and the staff's view was supported by the OECD survey of Iceland that had recently been circulated. Of course, that survey had been produced five or six months previously, at about the time that the major adjustment measures had been adopted, and was perhaps no longer timely. Moreover, as Mr. Tvedt had observed, the Icelandic authorities had acted to mop up some of the liquidity in the economy.

His only concerns about the prospects for Iceland were in the area of liquidity, Mr. Prowse said. He shared the worries of other Directors who had noted that money growth, calculated in recent months at an annual rate of 80 percent, was clearly incompatible with price stability and price increases of less than 10 percent. Moreover, the Treasury borrowing requirement and the budget deficit were projected to be larger in 1984 than in 1983. He noted in that regard that the budget deficit was about

2 percent of GNP, a figure that compared favorably with deficits in many member countries, including those in the industrialized world. Iceland had experienced a sizable devaluation and, given its substantial debt--some of which was indexed--a significant part of the budget outlay could not really be adjusted; in the circumstances, the operational deficit might be a useful measure and might even show that there was a surplus in the budget rather than a deficit. However, whatever the operational budget position, the authorities' intention was to balance the budget in 1984, if that intention were realized, the achievement would be commendable.

Prudent management of the macroeconomic situation in Iceland would be necessary over the medium term, Mr. Prowse continued. Wages would need to be held at moderate levels, some increase in taxation appeared necessary, and it might be important for the authorities to reconsider welfare entitlements. In addition, there was an urgent need to diversify the sources of Iceland's export earnings, and the fall in the fish catch was becoming more than a short-term problem. He would therefore appreciate hearing from the staff or Mr. Tvedt some elaboration on Iceland's policy toward foreign direct investment, which, for whatever reason, had not played a sufficiently strong role in Iceland's economy.

Another issue to be addressed was the drop in export earnings and the extent to which it might justify a further purchase under the compensatory financing facility, Mr. Prowse commented. He would be interested in hearing whether the staff was prepared to comment on the suggestion that a standard shortfall calculation could be made on the basis of existing statistics. If the shortfall could be calculated, then the presence of need would be established; he assumed that part of the shortfall would be beyond Iceland's control and would be temporary. The only remaining test was the test of cooperation, and, while he would not wish to anticipate the Board's feelings on that matter, he felt justified in noting that the adjustment measures adopted since May 1983 had been of the sort normally associated with Fund programs. Moreover, the effectiveness of those measures had been striking, particularly with respect to the reduction in inflation. It seemed, therefore, that a case had already been made for looking at a further purchase by Iceland under the compensatory financing facility, although any such purchase would probably be in the second 50 percent, since it had been only in December 1982 that the previous compensatory financing facility purchase had been made. He would welcome comment from Mr. Tvedt or the staff on the prospects for a compensatory financing request by Iceland.

Mr. Erb agreed with others that, while the Icelandic authorities had taken some major actions over the course of 1983, the adjustment was not likely to be sustained unless efforts on the wage front were supported by other measures. A successful conclusion to the 1984 wage negotiations had rightly been identified by the staff as an important element in the success of the program as a whole. Setting a good example with respect to wage rates in the public sector should be helpful, as should the Government's assurance that excessive wage increases would not be relieved by a devaluation of the sort that had often occurred in the past. The continued low level of unemployment in 1983 should encourage the cooperation of labor in the effort toward continued wage restraint.

On the monetary side, the staff had made references to the need for a somewhat less accommodating discount policy, Mr. Erb continued. However, the way in which the need would be met had not been made clear. Apparently the authorities would be using moral suasion and indicative targets, which might not be particularly effective in controlling domestic credit expansion. On the budget side, he hoped that the authorities would be able to implement the planned large cuts in central government expenditure.

He shared the staff's uneasiness about the authorities' use of periodic cuts in nominal interest rates and about the intention to limit an exchange rate depreciation as a means of slowing down inflation, Mr. Erb commented. The danger in moving too far in that direction was that the action might result in a further loss in competitiveness.

In agreeing with others on the need for institutional and structural reforms in Iceland, Mr. Erb wondered whether the authorities had planned any changes in the indexation system per se after the two-year suspension of wage indexation was ended. Would an active incomes policy remain a permanent feature of labor relations; if the indexation system was retained, might there be some modifications, such as an exclusion of changes in indirect taxes or nonreversible changes in external price movements? Did the Icelandic authorities believe that the tax system was adequate for the future, or did they feel that reforms were required?

For the longer term, he endorsed the staff's emphasis on the need for export diversification into energy-intensive industry, traded services, and perhaps import substitution, Mr. Erb remarked. Such reforms were important if Iceland were to reduce its economic vulnerability over the longer term to unexpected changes in the fishing industry. In that regard, he wondered, like others, about the potential implications of the possible reduction in the codfish catch in 1984. In general, a number of the policies necessary to achieve the 1984 targets had not yet been spelled out in detail, and some institutional and structural reforms would be necessary. Given the possible sharp declines in the codfish catch for 1984, it was difficult to judge the prospects for successful adjustment through 1984 and beyond.

With regard to the possiblity of a request by Iceland for a purchase under the compensatory financing facility, Mr. Erb observed that it would be premature at present to take a position on whether the requirements for such a purchase had been met. He was concerned more about the balance of payments need rather than about whether or not the authorities were on an appropriate adjustment path and were demonstrating an ability to deal with their underlying difficulties. The question of need in Iceland's case was of particular interest because of the income level, the country's borrowing capacity, and the balance of payments situation. His preference in the circumstances was to see how policies and their effects evolved during the first months of 1984 before firming up his reaction to a possible compensatory financing facility request.

Mr. Gomel recalled the indication by Mr. Tvedt that a sizable export shortfall had been recorded in 1983 that would make Iceland potentially eligible for a further purchase under the compensatory financing facility, going well into the upper tranche. Like others, he believed that Iceland's record of cooperation with the Fund had been good and that the appropriate policies seemed to be in place; in the circumstances, he would view any request by Iceland with an open mind but would lean toward a favorable reaction.

Mr. Clark, recalling a point raised by Mr. Prowse, noted that the fiscal deficit related only to the Central Government and was called the Treasury deficit. He would appreciate some comment from the staff on the apparent unavailability of consolidated public sector accounts. On a matter relating to export diversification, great stress had been placed on the exchange rate in maintaining competitiveness, but he wondered whether there was not also a need to shift resources within the trading sector away from the fishing industry. Given the comments made about overcapacity and the structure of surcharges and subsidies in the industry, adjustments in those areas might be appropriate.

The staff representative from the European Department noted that monetary growth in Iceland had shown no signs of significant deceleration, a fact that was of concern to the staff and the authorities. Unless there were an early slowdown in monetary expansion in line with the official objective, there was some danger that the adjustment effort could be undermined. While the authorities hoped that monetary growth would soon show evidence of a slowdown, a tightening of monetary policy with higher real interest rates was likely to be required to make that hope a reality; constraining the creation of central bank money should by itself serve to push interest rates up. On a related matter, the authorities had chosen SDR-linked bonds as a way of testifying to their determination to achieve positive real rates of interest as well as of strengthening confidence in Iceland's exchange rate policy.

With regard to the medium-term outlook for fishing and the possible need for further policy action--which was of relevance to any possible request for a purchase under the compensatory financing facility--the staff representative remarked that expectations about the cod catch in 1984 had deteriorated rapidly since the issuance of the staff report. That development had come as a surprise to the Icelandic authorities, who were in the midst of reassessing both the short-term and the medium-term outlook for fishing. Two important reasons for the lower cod stock in Icelandic waters were clear: unusually low sea temperatures and a sharp drop in the capelin stock on which the cod fed. The capelin stock was currently judged to have been rebuilt, so that factor should not have much effect in future. An assessment of the export outlook and of the adequacy of the overall adjustment effort was currently being made by the authorities.

In fiscal policy, the staff representative considered that the short-run priority of the authorities was to eliminate the central government budget deficit, mainly through expenditure restraint; real wages had already been held back substantially, which made it difficult to resort to tax increases. Nevertheless, the authorities were giving thought to introducing a value-added tax system sometime in the future. The introduction of a PAYE system for income tax had been shelved for the time being, although it should be noted that the existing income tax system was similar to a PAYE system; withholding was based on a tax index that reflected the expected rate of inflation.

There were no constraints to direct investment in Iceland, which had amounted to SDR 46 million in 1981, the staff representative from the European Department continued. However, direct investment had declined to SDR 33 million in 1982 and was expected to fall further in 1983 and 1984 as major projects were completed; hence, active consideration was being given to new projects, particularly an expansion of aluminum plant capacity. The authorities themselves were quite receptive to foreign investment; their aim was to maintain incentives for export diversification, which would be crucial in future.

Mr. Leonard wondered whether a further expansion in aluminum was a desirable investment, since the existing plant appeared from the paper to be working at only about 30 percent of capacity.

The staff representative from the European Department replied that aluminum exports and production had recovered significantly since the trough of the international recession and had led to greatly improved capacity utilization in the existing plant.

Mr. Ainley wondered whether the staff or the authorities felt that introducing a VAT system would provide for a more reliable and steady growth in revenues over the medium term.

The staff representative from the European Department observed that a VAT system would certainly be helpful in simplifying the indirect tax structure in Iceland. Such a system was under active consideration, but implementation would take some time.

Mr. Tvedt welcomed the indication by some Directors that the policies being pursued by the Icelandic authorities seemed to meet the criteria for drawings beyond the lower tranche of the compensatory financing facility and the indication that they were ready to look at a request for a drawing under that facility with an open mind.

As mentioned by many of his colleagues, supply shocks, adverse international developments, widespread indexing of wages and other incomes, and an accommodating stance in most areas of economic policy had been the main factors behind the serious imbalances that had developed up through the middle of 1983, Mr. Tvedt said. In an effort to correct those imbalances, the authorities had adopted courageous policies, and impressive results had already been achieved. Still, much remained to be done, and his Icelandic authorities were committed to pursuing policies aimed at a further reduction in the rate of price increases and improvements in the balance of payments.

It was clear that budgetary policies already in place would lead to an improved balance in government finances, Mr. Tvedt continued. While gross borrowing by the Government would increase somewhat in relation to GNP in 1984, that increase would occur mainly as a result of increased repayments of past borrowing. Measured on a net basis, the Government's call on financial resources in 1984 would fall in relation to GNP.

On the monetary side, some of his colleagues had expressed concern about the strong rise in monetary aggregates, Mr. Tvedt recalled. In assessing developments in Iceland, it was necessary to take into account that, because of widespread indexation of financial assets and liabilities, strong inflationary impulses remained. The effects of past inflation would, however, gradually dissipate; given the curbs on bank lending and the increased sales of government debt instruments to the public, there would likely be a slowdown in the growth of monetary aggregates in the period ahead. On another matter, it should be noted that almost all nominal interest rates in Iceland were positive when adjusted for actual price increases and appeared to be even higher when adjusted for price expectations.

In the area of exchange rate policy, the authorities had announced that the rate would be kept within a fairly narrow band in 1984, Mr. Tvedt commented. The preannouncement of exchange rate policy was intended in part to exert pressure on unions demanding higher wages and to signal employers that they could not expect to be bailed out through exchange rate policy if they granted excessive wage increases. Wage and incomes policy, which had been the mainstay of the first phase of the Government's economic adjustment program, would also play an important role in future. It was of course difficult to predict what results the return to the traditional system of free wage bargaining would produce; however, the firm stance that the authorities had taken with regard to civil servants' salaries and their proved determination to reduce inflation should make it possible to achieve moderate settlements. It was expected that real household incomes would be 5-6 percent lower on average in 1984 than in 1983.

Commenting on the sharp reduction in cod catches in recent years, Mr. Tvedt observed that the latest estimate of the size of the cod stock had become available only during the previous month, and the policy responses to that estimate had not yet been fully developed, but every effort was being made to move swiftly. It was difficult to elaborate on what the responses might involve; however, in the first stage, a comprehensive quota system was likely to be introduced on both individual types of fish and individual vessels. In the second phase, an effort would be made to tackle the problem of overcapacity in the fishing fleet in order to improve profitability and the utilization of existing capacity.

Furthermore, whatever the response, the authorities intended to stay the course in the adjustment policy effort. As an indication of what might be sought, it should be mentioned that the wage target for 1984 could be lowered from the present level of 6 percent. On the other hand, the Icelandic fishing industry had on earlier occasions demonstrated an ability to seek new alternatives.

The outlook for the fishing industry was not bright, Mr. Tvedt noted, and it was therefore important to diversify the economy along the lines suggested by Mr. Schneider and Mr. Erb. It was the policy of the authorities to expand as swiftly as possible the utilization of the rich energy resources in Iceland. With regard to Mr. Prowse's question on direct foreign investment, he observed that the Government had apppointed two committees whose task it was to seek foreign participation in the development of power-intensive industry, which would involve not only the establishment of new industries but also the expansion of existing plants. Current legislation limited foreign ownership in individual companies or enterprises to 49 percent; however, that general limitation could be lifted by the Government on a case-by-case basis. In general, the Government was quite open minded about possible foreign equity participation in domestic ventures.

Following the consultation discussions in September, he himself had had no doubt about the determination of the authorities to combat inflation and improve the balance of payments in a sustainable way, Mr. Tvedt said. Developments since that time had confirmed his view; the efforts of the authorities and the Icelandic people themselves to adjust to the difficult economic situation had been dramatic indeed, and it was to be hoped that they would in time form a sound basis on which further economic and social progress could be achieved.

The Chairman made the following summing up:

Executive Directors welcomed the set of strong--albeit belated--stabilization measures taken by the Icelandic authorities in mid-1983 in response to the large imbalance in the external current account and a dramatic acceleration of inflation. The statutory incomes policy--including the suspension of wage indexation--in conjunction with a pronounced depreciation of the krόna, led to a marked decline in real disposable incomes, a narrowing of the current account deficit from the equivalent of 10 percent of GNP in 1982 to a projected 2.5 percent in 1983, and a sharp deceleration in inflation, while full employment conditions were maintained.

Directors commended the objectives adopted by the Icelandic authorities for 1984, namely, the elimination of the current account deficit and a reduction in the rate of inflation to single digits by year-end. They considered the elimination of the current account deficit to be vitally important, given Iceland's current high debt burden, equivalent to 60 percent of

GNP, and observed that the desired reduction in the rate of inflation would be necessary if continued adjustment was to be accompanied by stability.

Directors stressed that the recent gloomy outlook for the fish catch in 1984 made a determined pursuit of adjustment--particularly through significant strengthening of financial policies--all the more important. Otherwise, the authorities' objectives with regard to inflation and the balance of payments would be difficult to reach.

Directors characterized the progress made in 1983 as having largely rested on the use of incomes policies, supplemented by exchange rate depreciation; financial policies, they felt, had not provided adequate or sufficient support. They viewed with concern the continuing rapid expansion in the credit and monetary aggregates, which, in their view, was inconsistent with the goal of sustained adjustment. Noting that interest rates in parts of the financial system were indexed, they considered that recent reductions in nonindexed interest rates might have contributed to the continued overaccommodating stance of monetary policy. Directors urged the authorities to make a prompt and determined effort to dampen liquidity through vigorous use of existing instruments, by introducing new instruments to sell government debt to the nonbank public, and by restricting central bank credit to the deposit money banks. Higher real interest rates were bound to be required for that purpose.

The correction in the fiscal budget for 1984 was commended by Directors, who stressed the importance of limiting any deficit that might emerge should tax receipts show a shortfall from estimates, for example, as a result of lower fish catches. Noting that the budget was, nonetheless, accompanied by a sizable and growing gross financing requirement, Directors emphasized that it was particularly important to finance the borrowing requirement largely from outside the banking system and to adhere to the ceilings on foreign borrowing by the public sector. Several Directors regretted that the burden of fiscal adjustment had been falling in large part on public investment, and they pointed to the need to improve the efficiency of the tax system.

Directors stressed that the achievement of the authorities' inflation targets would depend on wage settlements in 1984 not exceeding the official guidelines. Excessive wage settlements would also call into question the policy of a relatively stable exchange rate in effective terms. Directors were in sympathy with the current exchange rate policy stance of the authorities, but warned that maintenance of competitiveness through determined pursuit of appropriate financial policies was vital for purposes of export diversification and in order to safeguard continued adjustments in the external accounts.

Directors noted that a request by Iceland might be forthcoming for use of Fund resources under the compensatory financing facility. A number of them indicated that, without prejudice to any possible decision on the matter, they would examine any such request with an open mind and on the merits of the case. Some Directors indicated that, in their view, Iceland had already met the test of cooperation under the compensatory financing facility. Some other Directors indicated that, in their view, Iceland's Article IV papers did not provide an adequate basis for judging at this time whether the upper tranche conditionality of the compensatory financing facility is satisfied.

Directors welcomed Iceland's recent acceptance of the obligations of Article VIII, and commended its maintenance of a largely free-trading environment. They recommended that the next Article IV consultation with Iceland be held on the standard 12-month cycle.

2. POLICY ON ENLARGED ACCESS - AUTHORITY TO GRANT STAND-BY AND EXTENDED ARRANGEMENTS UNTIL DECEMBER 19, 1983 ON TERMS OF ENLARGED ACCESS POLICY

The Executive Directors continued from the previous meeting (EBM/83/170, 12/9/83) their consideration of means by which certain members could be eligible for enlarged access resources even if they were to approach the Fund with requests for stand-by or extended arrangements involving such access in the period before new decisions on enlarged access policy were adopted. They had before them the texts of two decisions proposed at EBM/83/170.

(a) 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 (Decision No. 6783-(81/40)) to include the proposed stand-by arrangements for Mali (EBS/83/242 and Cor. 1) and Zaïre (EBS/83/257), when these arrangements are approved.

(b) In accordance with the understanding reached by the Executive Board at its meeting on October 3, 1983, the Fund may approve a stand-by or extended arrangement that provides for enlarged access under Decision No. 6783-(81/40) at any time until midnight, December 19, 1983.

Mr. Suraisry remarked that, since the proposed decision concerned a policy issue, it would probably be better not to mention any country's name; hence, alternative (b) seemed to be the more appropriate of the two proposed texts.

Mr. Erb said that he too could go along with alternative (b). In passing, he expressed some curiosity about the staff's reply to a question that he had raised at EBM/83/170 concerning the point at which a decision lapsed. The staff had seemed to suggest that a decision would always remain on the books, even though it might not be operative, and he had some difficulty with that interpretation. In the specific case in question, it was his understanding that, once the required majority had been reached to make the quota increase effective, the enlarged access policy no longer existed. The proposed decision currently being considered stated that, on the understanding reached on October 3, the Fund was agreeing to treat any cases that would come to it before December 19 in the way in which they would have been treated before the enlarged access policy had lapsed.

The Director of the Legal Department replied that the proposed decision was reinstituting the authority to approve stand-by or extended arrangements on the basis of the enlarged access policy for a particular period, which would end on December 19, 1983.

Mr. Prowse commented that, in light of Mr. Erb's concern, it might be better to change the words of the proposed decision in alternative (b) to read "...that provides for enlarged access 'on the terms of' Decision No. 6783-(81/40) at any time until midnight, December 19, 1983."

The Executive Board then adopted the following decision:

Authority to Grant Stand-By and Extended Arrangements Until December 19, 1983 on Terms of Enlarged Access Policy 1/

In accordance with the understanding reached by the Executive Board at its meeting on October 3, 1983, it is decided that the Fund may approve a stand-by or extended arrangement that provides for enlarged access on the terms of Decision No. 6783-(81/40), adopted March 11, 1981, at any time until midnight, December 19, 1983.

Decision No. 7577-(83/171), adopted
December 9, 1983

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

The Executive Board continued from the previous meeting (EBM/83/170, 12/9/83) its consideration of the staff report for the 1983 Article IV consultation with Mali (SM/83/190, 8/16/83) and a request by Mali for a stand-by arrangement equivalent to SDR 40.5 million (EBS/83/242, 11/10/83; and Cor. 1, 12/8/83) by adopting the following decisions:

Decision Concluding 1983 Article XIV Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Mali, in the light of the 1983

1/ See EBS/83/266, Supplement 1.

Article IV consultation with Mali conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Mali continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions, and urges the authorities to take early action to terminate the remaining bilateral payments agreements with Fund members.

Decision No. 7578-(83/171), adopted
December 9, 1983

Stand-By Arrangement

1. The Government of Mali has requested a stand-by arrangement for the period from December 9, 1983 to May 31, 1985 for an amount equivalent to SDR 40.5 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/242, Supplement 1, Correction 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 7579-(83/171), adopted
December 9, 1983

APPROVED: April 5, 1984

JOSEPH W. LANG, JR.
Acting Secretary