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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/165

10:00 a.m., November 30, 1983

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	L. E. J. Coene, Temporary
	X. Blandin
A. Donoso	
R. D. Erb	J. C. Williams, Temporary
	T. Alhaimus
	T. Yamashita
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
A. Kafka	
	G. Grosche
G. Lovato	
R. N. Malhotra	
	J. E. Suraisry
J. J. Polak	
	H.-S. Lee, Temporary
G. Salehkhou	O. Kabbaj
F. Sangare	
	E. Portas, Temporary
J. Tvedt	
	T. A. Clark
Zhang Z.	

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

Also Present

African Department: O. B. Makalou, Deputy Director. Asian Department: Tun Thin, Director. European Department: L. A. Whittome, Counsellor and Director. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; M. Guitian, S. Kanesa-Thasan. External Relations Department: C. S. Gardner, Deputy Director; H. O. Hartmann. Fiscal Affairs Department: V. Tanzi, Director. IMF Institute: A. H. Gantt. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; J. K. Oh. Middle Eastern Department: S. H. Hitti. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: D. Williams, Deputy Treasurer; M. N. Bhuiyan. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; J. C. Di Tata, J. Fajgenbaum, J. Ferrân, O. Gronlie, M. E. Hardy, S. Kimaro, D. C. Ross, H. J. O. Struckmeyer. Bureau of Language Services: A. J. Beith, Director. Bureau of Statistics: J. B. Gupta. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, C. J. Batliwalla, J. Delgadillo, A. K. Hansen, Y. Okubo, D. I. S. Shaw. Assistants to Executive Directors: E. M. Ainley, M. B. Chatah, M. Eran, G. Gomel, V. Govindarajan, D. Hammann, N. U. Haque, A. K. Juusela, H. Kobayashi, M. J. Kooymans, A. A. Scholten, S. Sornyanyontr, A. Yasseri.

1. EIGHTH GENERAL REVIEW OF QUOTAS - REPORT BY MANAGING DIRECTOR

The Chairman noted that, as of November 29, 1983, consents to increases in Fund quotas had been received from 122 members, accounting for 72.5 percent of total quotas in the Fund. The participation requirement of 70 percent of total quotas had thus been met, and a proposed decision under which the Executive Board would confirm the meeting of that requirement had been circulated for adoption on a lapse of time basis. Since then, the Fund had received additional consents, from Italy and Maldives, accounting for 3.05 percent of total quotas, and he had noted with interest a statement by Mr. Erb that the ceremony for the official signing of the U.S. quota legislation would take place before the end of the day.

On November 29, 1983, the Executive Board had taken a decision extending the period for consents to the increase in quotas until January 31, 1984, the Chairman continued. He looked forward to receiving consents from all remaining member countries during the period, and he urged members to take the steps necessary to ensure that the deadline was met. He did not feel that the Board should consider any further extension beyond the date of January 31, 1984.

On another matter, the Chairman remarked, five participants in the General Arrangements to Borrow--namely, Belgium, France, the Netherlands, Sweden, and the United Kingdom--had agreed to the proposed amendments to the GAB and to the proposed increases in the amounts of participants' credit arrangements. He was confident that all other participants in the GAB would agree to those changes before December 31, 1983. In that connection, he wished to thank Saudi Arabia for accepting that, when the revised GAB became effective, the associated borrowing arrangement with Saudi Arabia would enter immediately into force.

It should also be mentioned that negotiations were continuing for the Fund to borrow SDR 3 billion from a group of industrial countries in the framework of the BIS and for another borrowing of SDR 3 billion from Saudi Arabia, the Chairman commented. A team of Fund officials headed by the Treasurer of the Fund was in Basle at present and would be traveling to Riyadh at the end of the week and then to Tokyo to discuss a bilateral borrrowing arrangement with Japan. The texts of the relevant borrowing arrangements would be submitted to the Executive Board for approval as soon as possible, perhaps in the second half of December. He was gratified by the spirit of cooperation that had been shown by Saudi Arabia and by a number of industrial countries in indicating their willingness to make financial resources available to the Fund in order to eliminate the commitment gap that the institution had been experiencing.

Given the progress on the matters he had mentioned, a major improvement in the Fund's liquidity position was likely, and there should be no need at the present stage to consider further possible measures to conserve the use of the Fund's resources, the Chairman remarked. He had noted in his summing up of the Board discussion on October 3, 1983 (EBM/83/145 and EBM/83/146) that it was understood that all negotiations for use of Fund resources should be conducted in a way that made it clear to the authorities of the requesting members that there remained some uncertainty about the availability of Fund resources and that management would therefore not be able to notify members of its formal acceptance of the substance of any new program. Those constraints could now be lifted.

Mr. Erb stated that he had been willing to go along with the Executive Board in accepting an extension of the period of consents for quota increases on a lapse of time basis. However, having only just completed its own legislative process on quotas, the United States was acutely aware of the advantage of a clear-cut deadline for consents. Without the deadline of November 30, it would have been easy for the Congress to have postponed taking a decision until 1984. Since the U.S. authorities had underscored the importance of the November 30 deadline by their own efforts to meet it, they were unhappy about the prospect of a two-month extension. While recognizing the need for flexibility on the period for consents, he was compelled to state that the U.S. authorities would strongly oppose any additional extension. It was to be hoped that the new deadline would be seen as final and would stimulate other legislatures to act. In passing, he would appreciate some confirmation of his impression that the Eighth Quota Review had been concluded in record time.

The Chairman observed that his own research had indicated that, at least for the United States, the period between the Governors' resolution and the consent by the U.S. authorities had been the shortest since 1965. The rapidity was all the more remarkable in view of early expectations that the Eighth Quota Review would encounter difficulties.

On another matter raised by Mr. Erb, the Chairman said that he too had been concerned about the rather generous extension of the period for consents; indeed, he would have been happier with a deadline of December 31, 1983. However, the staff had indicated that it would have been difficult for some countries to meet a December 31 deadline, and he had therefore gone along with a somewhat longer extension.

The Director of the Legal Department added that several Executive Directors had indicated that some countries would not be able to complete the legislative requirements before the end of 1983. Rather than propose a December 31 deadline that might have had to be extended further, the staff had felt that it might be better to propose one extension through the end of January 1984.

On two other points, the Director noted, first, that, because the participation requirement would be formally met at noon on November 30, 1983, members that had consented would have 30 days from that date to pay their increases. Second, the policy on enlarged access would lapse at noon on November 30, 1983, which meant that the Fund would no longer be able to grant any new arrangements under that policy until, or unless, it was extended by the Executive Board.

2. TRINIDAD AND TOBAGO - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Trinidad and Tobago (SM/83/231, 11/7/83). They also had before them a report on recent economic developments in Trinidad and Tobago (SM/83/212, 10/31/83).

Mr. Kafka made the following statement:

My Trinidad and Tobago authorities have examined the staff report for the 1983 Article IV consultation with great interest. There is full agreement between them and the staff on the need to adjust real aggregate demand gradually downward over the next two years to a level that can be sustained over the medium term. Nor do my authorities have any problem about the order of magnitude of the adjustment suggested by the staff, given the conditions of the world economy foreseen at present.

As is clear from the paper, Trinidad and Tobago had accumulated extraordinarily high reserves; the maximum reached was over 16 months of imports. As the staff suggests, considering the large reserves--about 9 months of imports--expected to be available at the end of the current year, as well as the excellent credit and low debt service ratio that characterize Trinidad and Tobago, the option for gradual adjustment is fully justified.

Trinidad and Tobago is, moreover, in a privileged position because capital goods in the last two years, when imports expanded most rapidly, made up nearly 40 percent of imports. Investment must be an important goal of the authorities. It is nevertheless clear that with the import structure described, a reduction in overall imports can be achieved more easily than if Trinidad and Tobago had to cut imports of essential consumer goods or of raw materials.

In their adjustment policies, the authorities placed the principal emphasis on fiscal measures additional to those already adopted during 1983 and on severe wage control. Regarding fiscal measures, it should be emphasized that a number of important infrastructure investment projects have recently been, or are about to be, completed; this will make easier an early approach to fiscal equilibrium, though further cuts are under consideration.

On my recent visit to Port-of-Spain, the authorities left me in not the slightest doubt that they will insist on a radical reduction of nominal wage increases not only in the public sector, where they can make their position prevail directly, but also in the private sector, where they can present amicus curiae briefs to the Industrial Tribunal. Trinidad and Tobago trade unions are strong but are by no means unreasonable, and with an average income of nearly US$7,000 per year, Trinidad and Tobago is by no means the typical poverty-stricken less developed country where severe resistance to adjustment measures is more likely.

The authorities are also resolved to strengthen monetary policies, and increased tightening of credit is already visible. The authorities do not intend to resist higher interest rates that may emerge out of such a situation.

Gradual adjustment requires temporary protective measures until the fiscal, monetary, and wage measures produce their effect. This is the reason for the strictly temporary import and exchange restrictions recently introduced.

My authorities disagree with the staff's position on exchange rate policy. There is no doubt that, on a purchasing power parity basis, the currency has become overvalued. As far as crude petroleum exports are concerned, there is no need for devaluation; at the present exchange rate, the world market price is remunerative, and it is doubtful whether refining would benefit much from devaluation. On the other hand, it is interesting to note that Trinidad and Tobago's nonpetroleum exports--excluding the CARICOM area itself, where there were special problems--have been increasing at a rate that over the years, except for 1981, was very satisfactory and in 1982 amounted to over 14 percent in U.S. dollar terms.

Export growth was due to petroleum-based industries. Increases in import tariffs for non-CARICOM imports could protect import competing industries, though they would not keep out CARICOM imports. But the extent of that problem depends very much on the variable level of the real effective exchange rate of the Trinidad and Tobago dollar vis-à-vis the other CARICOM currencies. Devaluation, in order to be effective and not to disrupt the cooperation arrangements in the area, would have to be negotiated with the CARICOM partners. This is particularly necessary since Jamaica has had to take unilateral exchange rate action; but Trinidad and Tobago does not face any need to take immediate action in this area. Worst of all, the impact of devaluation on wage negotiations could be disastrous. Important wage negotiations in both the public and the private sectors are scheduled for 1984.

In sum, therefore, I am convinced that a combination of wage, fiscal, and monetary restraint temporarily bolstered by import restrictions is the correct recipe for Trinidad and Tobago.

Mr. Leonard said that it was clear from the staff report that the degree of imbalance in the economy of Trinidad and Tobago at present called for strong corrective action. The period of economic buoyancy and growth in resources between 1978 and 1980 had witnessed rising trends in pay, fiscal expenditures--especially transfers and subsidies--investment, and imports. Those trends had generally strengthened in 1981 and 1982 at a time when the economy had been stagnating; they now needed to be contained because of the attenuation of the growth in resources available to the economy.

The authorities were fortunate to have some room for maneuver in making the necessary adjustments, Mr. Leonard considered. Nevertheless, although external reserves amounted to nearly ten months' imports, they had fallen considerably from the high levels registered in 1980 and 1981. Moreover, the debt service ratio, while low, had been rising, and recourse to external financing by the Central Government had grown in 1982 and was projected to rise further in 1983 and subsequent years. In the circumstances, although Trinidad and Tobago currently enjoyed an excellent credit standing, corrective action by the authorities should be strong and decisive.

The authorities were apparently broadly in agreement with the staff on the necessity for, and the magnitude of, the required economic adjustment, and they were prepared to take necessary action in connection with wages and with fiscal and monetary policies, Mr. Leonard continued. He noted also that trading measures were envisaged. There was no doubt that the policies of adjustment currently being undertaken, while open to criticism in some individual areas--such as the passive approach to interest rates--were defensible in their entirety because they addressed the structural weaknesses that had developed in the economy.

There was undoubtedly a case for making the adjustments gradually, while there was still scope for doing so, Mr. Leonard remarked. On the other hand, he had been struck by the magnitude of the turnaround that had to be effected over the next 12 months, and he noted that action might have to be more decisive than was envisaged at present. There was bound to be strong resistance by trade unions to the considerable pay restraint that would be required, and that resistance would be encouraged by the increases in public sector charges and in taxation that would also have to be implemented. If the resistance were sufficient to maintain anything like the upward movement in pay that had occurred in recent years, it could, in turn, retard progress toward fiscal and external balance. In other areas, too, results might take longer to achieve than expected, although he had no doubt that the authorities had calculated the risks attached to their approach, had found them acceptable, and would closely monitor the effects of their policies.

The one component missing from the package of measures concerned exchange rate action, and the authorities might do well to look again at the staff's advice about considering an exchange rate adjustment as a means of strengthening international competitiveness, Mr. Leonard commented. Such an adjustment would make good sense when viewed against the distribution of the country's external trade and the extent to which the real effective exchange rate of the Trinidad and Tobago dollar had appreciated since the beginning of the 1980s. An exchange rate adjustment would also help to diversify the economy by promoting manufacturing, a major government objective. Of course, the authorities of Trinidad and Tobago should act in consultation with their CARICOM partners, so that the region's interests as a whole could be safeguarded, but it should be possible with sufficient effort to move toward a satisfactory general solution to the problem.

Mr. Clark stated that he could broadly support the staff's assessment of the economy. Trinidad and Tobago was a clear example of a country in which, following a period of rapidly rising living standards based on a dramatic increase in oil prices, there had been a reluctance to come to terms with the more difficult economic environment of the past two or three years. His only general reaction to the staff's assessment and Mr. Kafka's opening statement was that the need for action, especially on the fiscal front, might be more pressing than had been suggested. The current account deficit in 1983 was expected to be equivalent to 75 percent of the value of exports, and the external debt service ratio had been rising rapidly. Still, he could endorse Mr. Kafka's view that the process of adjustment need not be particularly painful, given the composition of the increase in imports in recent years and the fact that per capita income in Trinidad and Tobago was comparatively high.

With prospects for the oil sector still weak, Mr. Clark continued, increasing emphasis must be placed on the performance of the remainder of the economy. At present, the combination of wage inflation and the level of the exchange rate was unsatisfactory; if exports in the non-oil sector were to be encouraged, a slower increase in wages had to be secured. Despite the problems associated with an adjustment of the exchange rate--not the least of which were the institutional constraints imposed by members of CARICOM--the authorities should at some stage consider whether the present rate against the U.S. dollar was appropriate.

A second area of concern was domestic interest rates, Mr. Clark remarked. The increase in lending rates was welcome; nevertheless, they remained substantially negative in terms of consumer price inflation. Third, he could support the staff's view that the present scheme of import restrictions was not the appropriate means of restoring external balance.

Trinidad and Tobago, like other oil exporting countries, had experienced a severe deterioration in the external environment and would be required to make a substantial downward adjustment of expectations for future growth, Mr. Clark concluded. Firm policy action, particularly on the fiscal front, would therefore be needed, although Trinidad and Tobago was beginning its adjustment effort from a strong position, both in terms of the level of its external reserves and the level of its foreign debt. He hoped that the authorities would have the courage to make the necessary adjustments with guidance from the Fund.

Mr. Williams said that he too was in broad agreement with the staff appraisal. In particular, he could support the decision not to recommend approval of the exchange measures recently adopted. It was imperative that the authorities in Trinidad and Tobago and the leaders of the trade unions should confront the fact that the economy had lost its international competitiveness as a result of the rapid increase in real wages. There was a clear need for a significant reduction in wages, which could be accomplished in a number of ways. One was for employees to accept cuts in real wages, an approach that was being adopted in some segments of labor in the United States. Another way was to adjust the exchange rate with a full passthrough on prices while holding nominal wages steady. Failure to act quickly and decisively would lead to an aggravation of the balance of payments difficulties and could result in the rapid erosion of the currently healthy reserves position.

Mr. Donoso observed that, following many years of high rates of growth, trends had reversed in Trinidad and Tobago, mainly because of lower oil prices and production, together with weak world markets for the products of petrochemical and gas-based industries. Since 1981, earnings of foreign exchange had declined, while expenditure had continued to increase; the result had been a deterioration in the current account of the balance of payments and a substantial drawdown in foreign reserves. In the circumstances, strong adjustment was called for, and he was happy to note that the authorities were in agreement with most of the staff's recommendations.

A major change needed to correct the present imbalances was an adjustment of wages in both the private and public sectors, Mr. Donoso continued. Direct control of public wages would contribute to the reduction of the public sector deficit and thus to the desired reduction in aggregate demand. Indirectly, the control of public sector wages should induce restraint in wages in the private sector, which would be necessary to ensure that the adjustment to a lower current account deficit did not occur in an environment of recession. He welcomed the authorities' intention drastically to curtail the pace of wage increases and to implement strict guidelines for wage adjustments in the public sector, actions that were consistent with their concern about the rising trend of unemployment. He also welcomed their intention to reduce the fiscal deficit sharply in 1984.

From the standpoint of external debt, Trinidad and Tobago seemed to be in a solid external position, Mr. Donoso commented. However, it was crucial that the authorities should maintain confidence in the economy, and they should therefore look to reducing the trade account deficits in future years. In that regard, the intended tax measures, increases in utility tariffs, restructuring of some state enterprises, and cuts in budgetary transfers and in capital outlays would be especially helpful. Moreover, a tight monetary policy would complement the fiscal effort. Total expenditures should be limited to a level that was financeable without further losses in international reserves. He agreed with the staff on the need to monitor credit policies closely and to maintain market interest rates.

On the exchange rate, he tended to agree more with Mr. Kafka's views than with those of the staff, Mr. Donoso said. The impact of a devaluation on wage negotiations could be severe; moreover, a devaluation could create difficulties in financing the trade account deficits that were being projected for the future, but that should otherwise be manageable in the absence of capital outflows. That view was reinforced by Mr. Kafka's analysis of the structure of the economy and of the special problems that a devaluation could pose for the cooperation arrangements on exchange policies in the region. In the circumstances, it would seem appropriate to look toward a gradual and noninflationary adjustment and to adopt the authorities' preference for avoiding a devaluation at present. An important argument in favor of that point of view could be that expenditures on wages and salaries by the Central Government in 1983 would apparently reach only 80 percent of the 1982 level, suggesting that there was scope for adjustment through action on expenditures or, more directly, on wages.

Mr. Portas remarked that, in the current circumstances of the international economy, the rate of growth of nominal demand in Trinidad and Tobago was incompatible with domestic and external equilibrium. The authorities apparently shared that view and had agreed that an adjustment effort should be made to correct the imbalance. Trinidad and Tobago's relatively high level of reserves should allow for a gradual adjustment process so that sources of long-term growth would not be affected by the adjustment effort, which should place emphasis on making costs internationally competitive. In that respect, he had been encouraged by Mr. Kafka's indication of the authorities' intention to insist on a significant reduction in nominal wage increases in both the public and the private sectors. The objective of correcting the competitiveness of the productive system by means of wage action should be attainable in conjunction with the fiscal and monetary restraint that the authorities were also resolved to implement.

On the external front, he agreed with Mr. Kafka that an exchange rate adjustment could have adverse effects on the wage negotiations scheduled for 1984, Mr. Portas observed. If real wages were going to be reduced, a devaluation would not be needed; if there were no downward flexibility in real wages, a devaluation could be counterproductive. In conclusion, he wished to state his support for the authorities' strategy of adjustment.

Mr. Malhotra stated that he was in general agreement with the staff's assessment. There were major imbalances in the fiscal area, and moderation in wages would be an important element in restoring balance to the domestic economy. He could also agree with the staff that monetary restraint would be important. On the exchange rate, he was inclined toward Mr. Kafka's views. Wage negotiations were never easy, and they could be complicated further if an exchange rate change was insisted upon.

Mr. Zhang remarked that, like others, he could accept the broad thrust of the staff's analysis and policy recommendations, although he disagreed with the staff's position on exchange rate policy in Trinidad and Tobago. The staff had recommended a devaluation on the grounds that it would contribute increasingly to the competitiveness of traditional exports and would encourage import substitution. However, that view had not been supported by analytical evidence; and Mr. Kafka had argued quite effectively against the idea that a devaluation would increase the competitiveness of traditional exports. On the import side, since three quarters of imports were raw materials and capital goods--which presumably could not be produced easily at home--he wondered how a devaluation would encourage import substitution. In his view, a devaluation would appear necessarily to result in an increase in import prices and, hence, in domestic prices and wages. Apparently, the staff had not taken those unfavorable effects fully into account; nor had it given sufficient consideration to the possibility that a devaluation by Trinidad and Tobago might lead to competitive devaluations by the country's trading partners in the region.

Finally, Mr. Zhang agreed with Mr. Kafka that the recently introduced foreign exchange restriction was necessary in order to facilitate the adjustment process. It was difficult to see why such a temporary measure would necessarily "undermine confidence, impair resource allocation, and ultimately retard economic growth," as had been asserted by the staff.

Mr. Sangare said that he could support the efforts being undertaken by the Trinidad and Tobago authorities to deal with the problems facing the economy. While he was in agreement with the thrust of the staff appraisal, he felt that there were several areas--those relating to the exchange rate adjustment, fiscal policies, and the medium-term prospects for the economy--that deserved to be approached with greater flexibility.

In general, Trinidad and Tobago was typical of many developing countries that were vulnerable to the vagaries of international markets, Mr. Sangare went on. As the staff had noted, the production of crude oil, steel, ammonia, cement, and traditional agricultural and manufactured exports had slowed, mainly because of depressed international prices and weak foreign demand; consequently, the previously sustained 4 percent growth in real GDP had turned into a decline of 2.5 percent and the surplus on current account had become a deficit. That was not to say that domestic policies, particularly the large wage increases and expansionary fiscal policies, had not contributed to the prevailing problems; nonetheless, the international situation had certainly put a severe strain on the economy, forcing the authorities to take tough corrective measures that had, to some extent, exacerbated the difficulties. For example, the curtailment of government work programs in response to tight budgetary measures and the effort to scale down aggregate demand had offset the progress made toward reducing unemployment by bringing the rate back up to the high level registered in 1978. It was clear that the authorities were aware of the problem and understood the need for adjustment, and they had agreed to the degree of adjustment suggested by the staff. The corrective measures proposed were without doubt in line with what was needed, although the authorities' concern about the social costs and the need for a gradual pace of adjustment were understandable.

On the issue of a possible exchange rate adjustment, Mr. Sangare observed that, while the effective appreciation of the Trinidad and Tobago dollar might have had some adverse impact on the competitiveness of the export sector, it was unclear whether a devaluation was the appropriate solution to the problems being experienced by the country. There were many constraints that would render an exchange rate adjustment both difficult and ineffective in Trinidad and Tobago. For example, the adverse effect of a devaluation on the effort to contain wages, the likely similar devaluations in other CARICOM countries, and the small impact that it would have on major exports made an exchange rate adjustment somewhat unattractive. In Trinidad and Tobago's circumstances, the maintenance of export promotion and diversification policies that had been adopted by the authorities seemed to provide a more appropriate strategy for export recovery. In that regard, he shared the concern of the authorities with regard to increased protectionism in industrial countries and its adverse impact on the exports of developing countries.

On the fiscal side, Mr. Sangare agreed with the staff on the need to improve budgetary performance and reduce current expenditure. The authorities had to continue policies of fiscal restraint and tight wage controls in order to reduce the budget deficit; however, a reduction of the deficit by 8 percentage points in relation to GDP in one year might be an ambitious target.

Because Trinidad and Tobago was a member of CARICOM, the authorities had found it difficult to use tariffs as an economic tool, Mr. Sangare said. They had also experienced some difficulty in compressing imports without creating adverse effects on investment and, for those reasons, had apparently decided to ration foreign exchange. In the circumstances, he would suggest a change in the proposed decision on page 15 of SM/83/231 to require a "progressive" elimination of the foreign exchange allocation system for imports rather than a "prompt" elimination of the practice. Finally, the policies referred to in the staff paper should be implemented steadily but with caution. The authorities' medium-term proposals with regard to the curtailment of imports were realistic and commendable. Trinidad still enjoyed a reasonable international reserve position, and its debt situation was relatively satisfactory. Therefore, he saw no difficulties over the medium term in the implementation of the intended policies. Moreover, there was room for further borrowing, which should help a great deal in restoring the financial viability of the economy.

Mr. Clark wondered whether the degree of pessimism that had been expressed about the potential for adjusting real wages was justified. Given the prospects for the oil sector, that pessimism would seem to imply a rather substantial and prolonged degree of deflation, which might not be the best solution for Trinidad and Tobago.

The staff representative from the Western Hemisphere Department noted that the exchange rate issue in Trinidad and Tobago was a difficult one, particularly in the context of the forthcoming wage negotiations. Nonetheless, the staff remained concerned about the international competitiveness of the economy, and also about the feasibility of achieving the required reductions in real wages and the needed improvement in the fiscal situation without some exchange rate action. In that context, it should be noted that the increase in exports referred to by Mr. Kafka was the reflection of a coming on stream of one or two new resource-based factories. As reported in the staff paper, however, some of the existing factories could operate at present only with substantial budgetary support. Moreover, the more traditional exports had performed poorly in recent years; in a number of cases, export industries--such as the sugar industry, the national airline, and the oil refineries--required large operating subsidies from the budget.

A number of Directors had referred to the difficulty of exchange rate action because of Trinidad and Tobago's membership in CARICOM, the staff representative recalled. The staff and the authorities were well aware that other members of CARICOM might move to offset some of the impact of a possible exchange rate adjustment by Trinidad and Tobago. However, Directors would recall that the same issue had been raised in consultation discussions with other CARICOM countries, and it should be remembered that Jamaica, for example, had devalued its currency by more than 50 percent over the past 12 months. Still, he agreed on the need for joint consultation in the CARICOM area and the necessity of coordinating exchange rate adjustments.

While some Directors had referred to the danger of capital outflows in the event of an exchange rate adjustment, others had stressed the need for decisive action, the staff representative from the Western Hemisphere Department noted. The reserve loss in the first nine months of 1983 had reached nearly US$900 million, and he understood that the most recent bank syndication--although it had been completed successfully--had not been an easy matter, which meant that future projections for capital outflows could prove to be overoptimistic. In the circumstances, while the Trinidad and Tobago authorities had some room for maneuver, there was clearly a need for decisive action. For all those reasons, the staff felt that the authorities would be well advised to consider exchange rate action as a supplement to the restrictive demand and wage policies that would be needed to achieve the required substantial adjustment.

The Deputy Director of the Exchange and Trade Relations Department recalled that some Directors had implied that the external restrictions recently introduced in Trinidad and Tobago might be seen as a suitable substitute for exchange rate action. Such an implication was worrying. The staff had reported on the comprehensive nature of the restrictions--perhaps the most rigorous form of import restrictions available--which represented a significant switch in economic policy in Trinidad and Tobago. Before the introduction of the measures, the economy had maintained a system essentially free of external restrictions; in that respect, the change in policy had the potential for undermining confidence and impairing resource allocation. For the reasons mentioned by the staff representative from the Western Hemisphere Department, the change would also retard economic growth and strengthen whatever inflationary forces already existed in the economy. However, the main concern of the staff was that, in the context of existing adjustment policies, the measures did not appear to be temporary, which was why the staff was not proposing that the Board should approve them.

Mr. Kafka said that he continued to believe that there were viable alternatives to an exchange rate change for Trinidad and Tobago. In addition to the reasons that he had already given for opposing an adjustment at present, he noted that it was important to take into account both the economic and political relationships in the region, which had already been strained by recent events.

On the question of restrictions, Mr. Kafka remarked, he considered it totally improper for the staff to question the honesty or purpose of the authorities, who had declared that the import restrictions had been imposed only temporarily. Nothing in the Articles of Agreement suggested that the introduction of temporary restrictions, while an economy was changing over to a severely restrictive incomes and demand policy, would be improper. Moreover, unless the staff had conducted a scientific poll, it should not speak about things which were "potentially" damaging to confidence in the economy; after all, any policy or action, given the right circumstances, had the potential to undermine confidence.

Mr. Donoso noted from Table 3 on page 6 of SM/83/231 that current expenditures on wages and salaries had fallen from TT$3,064 million to an estimated TT$2,390 million for 1983. He would welcome an explanation of the decrease and whether it corresponded to some adjustment-related action.

The staff representative from the Western Hemisphere Department replied that, in 1982, a wage agreement had been negotiated that had included 12 months of back pay--amounting to about TT$600 million--a lump-sum increase that did not show up in the 1983 figures.

The Chairman made the following summing up:

Executive Directors noted that Trinidad and Tobago's economic growth, especially in the petroleum sector, had weakened in recent years, owing to domestic and external factors. That weakening, together with expansionary fiscal policies and substantial wage increases, had contributed to the emergence of large internal and external imbalances in 1982 and 1983.

In view of the prospect of relatively modest export growth for the next few years, Directors underscored the urgent need to adopt a comprehensive adjustment program designed to bring aggregate domestic demand into line with resource availabilities. In order to moderate the rapid rate of decline in international reserves and protect the country's creditworthiness, Directors thought that, given the magnitude of the imbalances, substantial adjustment measures should be introduced promptly. Noting that the authorities still had some room for maneuver, Directors nonetheless urged them to take decisive measures before external constraints became too pressing. In that regard, the relatively high level of per capita income and the composition of imports should ease the adjustment process.

Directors agreed that wage restraint and an improvement in budgetary performance should form the centerpiece of the adjustment program and would require a major effort to increase revenue from the non-oil sector and to curb current and capital public expenditure through containment of wages, employment, subsidies, and transfers. Adjustments in the prices and tariffs of state enterprises were also seen as an important element of the policy package.

Directors noted that excessive wage increases had contributed to financial imbalances in the economy and eroded the competitiveness of traditional sectors. They therefore welcomed the Government's intention to announce strict wage guidelines for public sector employees and to encourage moderation in wage settlements throughout the economy.

Directors further observed that credit policy might need to be tightened and that interest rates should be market determined and should become positive in real terms.

Directors emphasized that restrained demand policies and actions to improve international competitiveness should be the means of restoring external viability. In that connection, the substantial appreciation of the real effective exchange rate of the Trinidad and Tobago dollar that has taken place in recent years was noted, and Directors underlined the close linkage between wage behavior and the exchange rate. The authorities would have to keep that relationship in mind in their effort to enhance the international competitiveness of Trinidad and Tobago. The recent introduction of foreign exchange restrictions for balance of payments reasons was regretted, and a number of Directors urged the authorities to abolish such restrictions as soon as possible in order to avoid misallocation of resources.

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

The Executive Board turned to the proposed decision.

The Chairman, recalling Mr. Sangare's proposal for an amendment to the decision, observed that a number of Directors had objected to such a change for reasons of principle. He hoped that Mr. Sangare could accept the decision as it stood.

The Executive Board then adopted the proposed decision without change.

The decision was:

Decision Concluding 1983 Article XIV Consultation

1. The Fund takes this decision relating to exchange measures of Trinidad and Tobago subject to Article VIII, Section 2, and in concluding the 1983 Article XIV consultation with Trinidad and Tobago, in the light of the 1983 Article IV consultation with Trinidad and Tobago conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Trinidad and Tobago has recently introduced a foreign exchange allocation system for imports. The Fund urges Trinidad and Tobago to implement policies that will facilitate the prompt elimination of this practice.

Decision No. 7569-(83/165), adopted
November 30, 1983

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/164 (11/28/83) and EBM/83/165 (11/30/83).

3. EIGHTH GENERAL REVIEW OF QUOTAS - EXTENSION OF PERIOD FOR CONSENT

The period for consent to increases in quotas under the Resolution of the Board of Governors - Eighth General Review is extended to 6:00 p.m., Washington time, January 31, 1984.

Decision No. 7570-(83/165), adopted
November 29, 1983

4. EXPERIENCE WITH MULTILATERAL DEBT RESTRUCTURINGS WITH OFFICIAL CREDITORS AND WITH INTERNATIONAL BANKS - PUBLICATION

The Executive Board approves the proposal set forth in SM/83/227 (11/7/83).

Adopted November 28, 1983

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/286 (11/25/83) is approved.

APPROVED: April 3, 1984

JOSEPH W. LANG, JR.
Acting Secretary