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Fiscal Policy and Adjustment in the 1980 Fund Financial Programs

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I. Introduction

The primary purpose of this paper is to examine the fiscal characteristics of the 1980 stand-by arrangements in the upper credit tranches and programs under the extended Fund facility. In particular, the review focuses on the expectations about revenue and expenditure developments, the fiscal policies and measures envisaged to bring about the fiscal adjustment, and the outturn of these financial operations. In addition, the adjustment in the government sector relative to the adjustment in the external sector is examined by comparing changes in the overall fiscal deficit with the current account deficit on the one hand, and the domestic bank financing of the government deficit with the balance of payments outcome on the other hand.

While the paper reviews the main macroeconomic objectives included in the programs, its analytical scope is limited to developments in the fiscal area and, to some extent, in the external sector. No attempt has been made to examine the realization of objectives such as higher economic growth and abatement of inflation.

The main findings of the study are as follows:

(1) The most frequently used fiscal performance criterion continued to be a ceiling on bank credit to government (broadly or narrowly defined). This ceiling, which was included in all but one of the 26 programs, was observed (along with other clauses) in only 10 instances or 40 per cent of the programs under consideration. This proportion is marginally higher than the 39 per cent rate of compliance reported by Beveridge and Kelly (1980) in their review of 105 upper credit tranche stand-by arrangements supported by the Fund over the period 1969-78. 1/ The same ratio of 40 per cent was recorded for 1979 upper credit tranche stand-by arrangements.

(2) Nearly half of the programs surveyed contained statements of intention to implement revenue-increasing and/or expenditure-reducing measures in support of the fiscal objectives. However, while revenue measures were often specific, expenditure measures tended to be broad and confined to statements of intentions.

(3) Half of the programs that aimed for a minimum decrease in the overall fiscal deficit, equivalent to 1 per cent of gross domestic product (GDP), achieved a reduction although, in general, the magnitude

1/ For details see W. A. Beveridge and Margaret R. Kelly, "Fiscal Content of Financial Programs Supported by Stand-by Arrangements in the Upper Credit Tranches, 1969-78," Staff Papers, Vol. 27 (June 1980), p. 248.

of the actual adjustment was smaller than planned. In these programs, on average, the overall government deficit fell from 8.7 per cent of GDP during the preprogram year to 6.8 per cent a year later (moderately above the 5.4 per cent target). The fiscal adjustment was noticeable in those programs where the performance criteria were observed as well as in those that did not meet the credit ceilings and other clauses. Expenditure containment measures were more often responsible for the reduction in the deficit than were revenue enhancing measures. The survey also indicated that the overall fiscal position deteriorated significantly beyond expectations in several other instances, more frequently as a result of spending overruns than revenue shortfalls. Thus, on the basis of the dominant role played by expenditure developments relative to revenue developments in determining the overall outturn of government operations, it would appear that a special emphasis should be placed on the formulation and execution of expenditure policies. Finally, it was also found that revenue projections were met or exceeded more often than expenditure was kept to or below planned levels.

(4) When the adjustment in the government sector is compared with the adjustment in the external sector, the survey revealed that only one of the seven programs that sought an improvement in the overall deficit exceeding by at least 1 per cent of GDP the decrease in the current account deficit achieved this objective. However, in four of these seven instances, the decrease in the government deficit/GDP ratios recorded was at least equal in magnitude to the improvement (sometimes deterioration) in the current account position. Insofar as the entire external sector is concerned, none of the seven programs that sought a more rapid improvement in the fiscal position (measured as reduced bank financing) than in the overall balance of payments achieved the expected adjustment. However, while the overall performance was below target in both sectors, in five of these programs, underperformance was more predominant in the government sector. As regards the programs that did not envisage a decrease in bank credit to government larger than the decrease in the balance of payments deficit, the survey indicated a deterioration or little change in both the fiscal position and the external sector outcome in eight instances with a slight tendency toward a more pronounced recourse by the government to borrowing from the banking system to finance budget deficits.

(5) Among the factors that contributed to an inability in many programs to achieve the planned adjustments are excessive optimism embodied in the macroeconomic targets and in the projected impact of policy measures, as well as administrative and political constraints preventing the full implementation of policies, rapid inflation,

and unforeseen events (i.e., sudden and prolonged climatic changes, armed conflicts, deterioration in the terms of trade along with a slowdown in foreign demand, rise in interest rates abroad, and appreciation of major international currencies).

These findings and comments are presented in more detail below. The plan of the study is as follows: the data and the methodology used in the survey are described in Section II. The objectives of the programs, the performance criteria, and the content of the letters of intent or memoranda of understanding are presented in Section III, followed by a review of the fiscal policy targets, statements, and outcomes in Section IV. Section V compares the fiscal performance with developments in the external accounts. The paper ends with some concluding remarks in Section VI.

II. Data and the Survey Method

The survey covered 15 upper credit tranche stand-by arrangements and 11 arrangements under the extended Fund facility approved by the Executive Board for the program period 1980. The stand-by arrangements were with the following Fund members: Bolivia, Costa Rica, Kenya, Korea, the Lao People's Democratic Republic, Liberia, Madagascar, Malawi, Mauritania, Mauritius, Panama, the Philippines, Tanzania, Turkey, and Yugoslavia, while the 1980 program year extended Fund facility arrangements were with Bangladesh, Gabon, Guyana, Haiti, Honduras, Jamaica, Morocco, Pakistan, Senegal, Sri Lanka, and Sudan. The stand-by arrangements with Equatorial Guinea and Somalia were not included because of the lack of data on the GDP (the scaling factor of all the fiscal and balance of payments variables used). Similarly, the extended arrangement negotiated with Egypt in 1978 and due to expire in July 1981 has not been included in the review as no program was agreed upon for 1980. Extended Fund facility programs carried out or to be implemented in 1980 have been treated as one-year programs and added to the 12-month stand-by arrangements. Hence, in this study no differentiation has been made between extended Fund facility programs and stand-by arrangements. In this respect, the structural features of the programs under the extended Fund facility are not discussed in this survey. Furthermore, the review did not differentiate programs that were fully implemented from those that were suspended or replaced by new programs or subject to waivers and modification of performance clauses. The study covered programs where no purchases were made, as well as those where total or partial purchases were made.

For each program, qualitative and quantitative information was collected on the objectives, performance criteria, content of the letter of intent and/or memorandum of understanding, policies, and on the following variables: government revenue, expenditure, overall fiscal balance, foreign financing, domestic nonbank and bank financing, the current account balance, the overall balance of payments, nominal GDP or gross national product (GNP). Data on these aggregates for the preceding year, the program year targets, and actual data for the program period were collected. Preliminary data were used in a few instances. The descriptive and statistical information was obtained from both published and unpublished sources. In general, the staff reports contained data and projections on the main aggregates. However, in a number of cases, the program projection of current GDP or GNP made during the negotiations was not indicated. Similarly, in some instances, the current account and the balance of payments forecasts were denominated in foreign currencies often (the U.S. dollar and the special drawing right) with no exchange rate forecasts attached. The assistance of staff members was very useful in most of these cases. To the extent possible, the fiscal data and projections were collected for the level of government applicable in the fiscal performance criteria. All the relevant aggregates have been expressed as ratios to GDP or GNP. 1/ These ratios were rounded to the nearest integer at the final stage of the computation.

Although it might have been appropriate to compare actual performance with program targets, these targets (and the outturns) were compared with the actual data for the previous year because presumably the program was formulated partly on the basis of the preceding year's performance. Furthermore, the use of data for the previous year as the basis for comparison of program targets and actual developments gives an indication of the progress accomplished during the program period. 2/

III. Program Objectives, Performance Clauses, and Letters of Intent and Memoranda of Understanding

1. Objectives of the stand-by arrangements and programs under the extended Fund facility

The financial programs undertaken by Fund members in 1980 sought improvement in a variety of areas: balance of payments, government sector, economic growth, inflation, economic diversification, income distribution, and payments arrears (Table 1). All but 5 of the

1/ Some caution is warranted in the interpretation of these ratios, given the shortcomings of GDP (or GNP) data as a measure of total economic activity in many countries.

2/ This progress, of course, may not be due only to the implementation of the financial program policies. Furthermore, this comparison does not cast light on what the macroeconomic developments would have been in the absence of the financial program.

Table 1. Objectives, Types of Performance Clauses, and Content of Letters of Intent Included in the 1980 Stand-By Arrangements and Extended Arrangements

(In number of programs)

	Fiscal Performance Clause: Observed 1/	Fiscal Performance Clause: Not Observed	Program Without Fiscal Performance Clause	Total
Objectives				
Improve current account/balance of payments position	7	13	1	21
Improve fiscal position	3	5	--	8
Sustain economic growth	4	10	1	15
Combat inflation	3	4	--	7
Other	3	4	--	7
Types of Performance Clauses				
Bank credit to central government	6	9	--	15
Bank credit to public sector	4	7	--	11
Other fiscal performance criteria	2	--	--	2
Other performance criteria	10	14	1	25 2/
Letter of Intent contains targets for				
Current account/balance of payments	8	13	--	21
Overall fiscal deficit/surplus	8	12	--	20
Total revenue (and grants)	3	7	--	10
Total expenditure and net lending	2	7	--	9

Sources: Based on information contained in 1980 stand-by and extended Fund facility papers.

1/ The performance criteria were observed by the following members: Gabon, Korea, Liberia, Mauritania, Mauritius, Morocco, Pakistan, Panama, the Philippines, and Turkey.
2/ The remaining (26th) program did not contain a performance criterion other than that of a bank credit to the public sector.

26 programs surveyed aimed simultaneously at reaching two or more of these objectives. The most frequently stated goals in the programs were an improvement in the current account/overall balance of payments position, followed by a higher economic growth and an improvement in the government financial operations. Indeed, about 81 per cent of the programs sought an improvement in the external accounts, whereas 58 per cent of the programs under review were growth oriented, using price and investment as principal policy instruments. Emphasis was placed on resolving fiscal imbalances in eight instances (equivalent to about 31 per cent of the programs), in part as a way of addressing the external sector disequilibria. The need to keep inflation under control was explicitly recognized in 27 per cent of the programs surveyed.

In terms of pursuing simultaneously several objectives, 13 of the 26 programs under consideration aimed at a better current account and/or balance of payments outturn along with a higher growth rate of total output. The majority of the other 13 programs aimed specifically at two objectives, one of which was the restoration of fiscal balance or a lower rate of inflation; the other goal being a viable external sector position, or a higher rate of economic expansion. Of particular interest, only five of the programs surveyed sought simultaneously an improvement in the external accounts, a higher economic growth, and a lower rate of inflation. One program emphasized simultaneously a viable current account/balance of payments position, control of government expenditure growth, and the slowdown in price increase whereas major progress was sought in the fiscal and economic growth fields as well as in the external sector in another program. Hence, the pursuit of more than two objectives in the context of one-year and medium-term adjustment programs was not widespread.

2. Performance criteria

Practically all the programs surveyed contained performance clauses covering four main areas: domestic bank credit expansion, growth of the external debt, restrictions on external trade and payments, and the reaching of an understanding on economic policies partway through the program period. In addition, the exchange rate, net foreign assets, and some public sector operations were subject to performance criteria in a few instances.

Ceilings on domestic bank credit to the central government or to the public sector were the most frequently used type of fiscal performance criteria. 1/ Indeed, all but one program contained a ceiling

1/ Beveridge and Kelly, op. cit., p. 207, found a similar result in their survey of upper credit tranche stand-by arrangements of 105 members covering the period 1969-78. So did Beveridge (1981), op. cit., p. 3.

on the use of bank credit by the government, narrowly defined as central government, or broadly defined to include all or some nonfinancial public enterprises. 1/ In some cases, the ceiling definition included foreign commercial bank loans, thereby explicitly recognizing the expansionary effect of such loans on aggregate demand and their substitutability for domestic bank financing. The use of the broad concept of public sector credit was more frequent in programs of Asian and Latin American members than in those of African countries, a reflection of differences in data availability and the credit-monitoring apparatus. In the remainder of the paper, the word government is used for either the central government or the public sector when referring to government/public sector macroeconomic variables. One of the binding and most recurrent monetary understandings in the majority of the programs was the imposition of a ceiling on the total domestic credit/net domestic assets of all or part of the banking system. It should be noted that in the only instance (referred to above) in which no performance clause was set on bank credit to government, a ceiling was set on overall domestic bank credit. The economic structures of this member were such that the nongovernment sector had virtually no access to bank credit, so that developments in the financial operations of the public sector could be monitored adequately through a single performance criterion on the total bank credit. With respect to other fiscal aggregates, the survey indicated that binding commitments on revenue, expenditure, or government arrears were not incorporated in any program.

3. Content of the letters of intent/memoranda of understanding

The main elements of the stabilization programs are articulated in the letter of intent of the member's government or the attached policy memorandum. Hence, the content of this letter/memorandum, especially the quantified macroeconomic aggregates which it contains, provides an indication of the national authorities' degree of commitment regarding the execution of the program. The majority of the programs under review contained fiscal and balance of payments targets that were incorporated in the letters of intent. Insofar as the macroeconomic fiscal objectives were concerned, the amount of bank credit to government was the quantified fiscal variable most frequently incorporated in the letters of intent. Indeed, all the programs that observed the performance clauses contained a binding understanding to limit government bank borrowing to a stated level. The proportion was also high for the programs in which the performance criteria were not observed: 81 per cent. Regarding the other fiscal

1/ The use of bank credit to government as a performance criterion reflects the widespread and important role of government in the expansion of bank credit on the one hand, along with the timeliness of data, ease of monitoring and, to some extent, policy neutrality on many macroeconomic variables on the other hand.

variables, the overall deficit of government operations was incorporated as a target in 20 letters of intent 1/ compared with 10 for revenue and 9 for expenditure. This relatively frequent reference to quantified fiscal aggregates would tend to indicate recognition that fiscal problems were serious and called for extensive action. By way of comparison, for example, as regards the external sector, 19 per cent of the programs surveyed did not include explicit current account and balance of payments targets.

IV. Fiscal Policy Targets, Statements, and Outcomes

1. Fiscal policy targets

Of the 26 programs under review, 18 envisaged a reduction in the fiscal deficit equal to or exceeding 1 per cent of GDP, with 12 programs projecting a 2 per cent minimum decline in the deficit ratio (Table 2). This ratio was forecast to decrease by an average of 5 per cent of GDP in eight of the programs aiming at the largest fiscal adjustment. The large number of programs that planned to achieve a smaller overall deficit, as well as the magnitude of the expected reduction, are indications of the expansionary fiscal policies undertaken during the preceding years and the limited fiscal adjustment that might have taken place. The overall balance of government operations was forecast to deteriorate in seven instances and remain virtually unchanged in one case.

As to ways of bringing about the fiscal adjustment, more reliance was placed on expenditure cutbacks than on revenue gains. 2/ Indeed, of the 26 programs surveyed, 13 expected the expenditure ratio to fall by an average of 5 per cent of GDP compared with 3 that forecast an average increase of the revenue ratio by 4 percentage points. The range of the programed expenditure cutbacks (3-22 per cent of GDP) was substantially wider than that of revenue gains (1-9 per cent). This substantially stronger emphasis on expenditure reduction, in many instances, reflected the realization of the limited scope for large revenue increases in the short run, as well as the recognition that certain expenditure programs were out of control. A lower expenditure ratio (though by a smaller magnitude than the amount envisaged in the 13 programs referred to earlier) was also expected to be responsible for the decrease in the overall fiscal deficit ratio in one other program. The survey also indicated that of the remaining nine programs, the overall government deficit was forecast to rise in six instances, primarily as a result of a substantial increase in expenditure, compared with two cases in which revenue shortfalls were

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1/ This more frequent reference to the neutral notion of the overall deficit as opposed to the more specific variables, such as revenue and expenditure, was perhaps a reflection of the flexibility sought by the national authorities in dealing with the fiscal problems.

2/ A similar conclusion was reached by Beveridge, *op. cit.*, p. 6.

Table 2. Targets of Main Fiscal Aggregates Contained in the 1980 Stand-By Arrangements in the Upper Credit Tranches and Extended Arrangements

(In number of programs)

	Fiscal Performance Clause: Observed	Fiscal Performance Clause: Not Observed	Program Without Fiscal Performance Clause	Total
I. Revenue (and grants)				
Increase in revenue by at least 1 per cent of GDP	4	7	1	12
Of which:				
1 percentage point	2	4	--	6
2 percentage points	--	2	--	2
3 percentage points or more	2	1	1	4
Decrease in revenue	3	6	--	9
Revenue remains virtually unchanged	3	1	--	4
Data not available	--	1	--	1
II. Expenditure (and net lending)				
Decrease in expenditure by at least 1 per cent of GDP	5	8	--	13
Of which:				
1 percentage point	--	1	--	1
2 percentage points	2	--	--	2
3 percentage points or more	3	7	--	10
Increase in expenditure	3	3	1	7
Expenditure remains virtually unchanged	2	3	--	5
Data not available	--	1	--	1
III. Overall deficit				
Decrease in overall defict by at least 1 per cent of GDP	6	12	--	18
Of which:				
1 percentage point	2	4	--	6
2 percentage points	2	2	--	4
3 percentage points or more	2	6	--	8
Increase in overall deficit	4	2	1	7
Overall deficit remains virtually unchanged	--	1	--	1
IV. Role of revenue/expenditure in programed fiscal targets				
Decrease in overall deficit mainly due to:				
Decrease in expenditure	3	10	--	13
Increase in revenue	3	--	--	3
Increase in overall deficit mainly due to:				
Increase in expenditure	2	3	1	6
Decrease in revenue	2	--	--	2
Data not available	--	2	--	2

Sources: Based on information contained in 1980 stand-by and extended Fund facility arrangement papers.

expected to be the dominant contributory factor to the deterioration in the fiscal position. No information was available on the principal factors responsible for the deterioration in the fiscal position in the one remaining program.

2. Fiscal policy statements

Several programs contained statements outlining policy changes in support of the fiscal targets (Table 3). The main policy areas were revenue growth, expenditure control, and improvement in the operations of nonfinancial public enterprises and the pricing of their output.

a. Revenue policies

The majority of the programs (14 out of 26) contained revenue forecasts supported by tax measures, some of which were substantive. These measures covered the entire range of taxes (income tax, taxes on international trade, taxes on goods and services, and the spectrum of miscellaneous taxes). In general, the additional revenue was planned to arise from increases in rates rather than from the expansion of the tax bases, although a few programs included plans to extend the tax coverage (for instance customs duties on capital goods) or to reduce some tax exemptions (i.e., customs exemptions). The items that were most frequently subject to higher import and/or excise duty rates were beverages, cigarettes, petroleum products, and "luxury" goods. Excise tariff rates on electricity were also raised in a number of instances. In most cases, the tax measures were expected to be taken during the program year. However, some measures were taken during the preceding year in a limited number of cases.

Although more than half of the programs under review contained revenue-increasing measures there was an apparent recognition in several instances that the upper limits of many tax rates (import and excise taxes especially) had been reached, and that further increases could result in more widespread evasion and/or diminishing returns. This realization would appear to underscore the need for a strong and sustained effort to make very substantial improvements in the area of tax administration. This need was recognized, for a substantial number of programs (11) included policy statements indicating an intention to improve the efficiency or to strengthen the tax administration machinery. Most of these statements were supported to a variable degree by substantive description of the policies to be implemented. The areas of emphasis included the training of tax officials, the streamlining of the tax system along with the simplification of some tax schedules, the speeding up of tax assessment

Table 3. Fiscal Policy Statements and Measures Contained in the 1980 Stand-By Arrangements in the Upper Credit Tranches and Extended Arrangements

(In number of programs)

	Fiscal Performance Clause		Program Without Fiscal Performance Clause	Total
	Observed	Not Observed		
Revenue				
Improve tax administration	4	6	1	11
Tax measures	6	8	—	14
Expenditure				
Improve budget administration, expenditure monitoring, and control system	1	6	—	7
Reduce growth of current expenditure	3	6	—	9
Especially				
Wages and salaries	5	7	—	12
Subsidies	4	4	1	9
Reduce growth of development expenditure	1	2	1	4
Nonfinancial public enterprises				
Substantive policy statements about contribution of public enterprises in adjustment program	6	8	1	15
Increase in prices of goods and services sold by public enterprises	2	4	1	7
Policy statements on issues other than prices	3	1	1	5
Prices				
Increase in prices of consumer goods and services	3	1	1	5
Increase in producer prices	3	4	—	7

Sources: Based on information contained in 1980 stand-by and extended Fund facility papers.

and collection, the tightening up of tax regulations, the introduction of measures to combat tax evasion, and an increased effort to collect tax arrears.

b. Expenditure policies

In view of the limited buoyancy of revenue collection in the short run, many programs placed a partial or total reliance on expenditure policies in order to achieve the planned fiscal adjustment. The restoration of fiscal balance in the economy was entirely dependent on expenditure cutbacks in seven programs, for the government spending ratio was projected to decrease by more than the revenue ratio.

Seven programs incorporated statements regarding improvements in budget administration and expenditure monitoring and control procedures. Some of the statements were related to basic areas of the accounting and monitoring system, such as the introduction of improved accounting and auditing procedures, while others dealt with the centralization of the power to authorize expenditure. In a number of instances in which large extrabudgetary or extra-Treasury expenditure was a serious problem, policy statements indicating an intent to curb or eliminate these outlays were included in the programs. The collection of timely expenditure data (on a commitment and/or on a cash basis) was also emphasized in some instances. However, as in the case of tax administration-related statements, little discernible effect was expected from the implementation of these budget administration-related policies during the program period. As a result, a significant number of programs included expenditure forecasts supported by relatively substantive expenditure-reduction policies, mainly in the areas of wages and salaries, employment, and subsidies. Limited reference was made in some instances to controlling the growth of some expenditure on materials and supplies as well as capital expenditure.

The survey revealed that in nearly half of the programs, the national authorities planned to take short-run measures aimed at slowing down the increase in the government wage bill. These included frequently the freezing of nominal wages 1/ or the limiting of wage increases to low-income workers. In the few instances in which wage increases were to be granted (generally to offset inflation), the rate of increase was limited to a fraction of the rise in the consumer price index. It was apparent from the survey that, in many instances, national authorities were aware of the negative impact on productivity and morale, of long periods of decline in real wages,

1/ Quite often, the freeze affected mainly the cost of living adjustment, as wage increases associated with seniority and some benefits continued to be granted.

and, as a result, they tended to favor measures such as a freeze of the government labor force and the requirement that vacancies and new positions be filled only for essential personnel.

Another important expenditure theme was the control of the growth in subsidies. Nine programs contained relatively substantive statements about reducing direct and indirect consumer subsidies. The planned reduction generally took the form of higher administered prices for goods and services (mainly food items, petroleum products, electricity, and transportation fares). Producer prices were raised with a view to reducing producer subsidies in seven programs. A small number of programs contained broad statements related to capital expenditure. They involved delaying the implementation of some development projects and the shifting of emphasis in favor of some agricultural projects (i.e., irrigation, land reclamation, crop-improvement techniques) or in favor of "quick-yielding" projects in the export sector.

c. Policies regarding nonfinancial public enterprises

Nonfinancial public enterprises received considerable attention and were expected to make a contribution to the adjustment effort in 15 programs. 1/ Indeed, as mentioned earlier, nearly half of the programs under review contained a fiscal performance criterion on bank credit to the government sector defined to include some or all nonfinancial public enterprises, and often policy statements regarding their operations were included in the letter of intent. The main area in which their contribution was the most frequently called for was output pricing policy. The prices of the goods sold by these enterprises were expected to be raised in seven instances, generally with a view to reducing their losses and need for subsidies. In some cases, broad statements were made about rehabilitating some of these enterprises and exercising more control over their operations in order to reduce their drain on government resources and/or their need for bank financing. In one instance, the conversion of some of the public enterprises into semiprivate ventures was considered, while in another instance the emphasis was to be shifted away from large capital-intensive concerns toward small fast-return production units.

3. Outcome of the fiscal performance

The review of the outcome of the various programs that follows pertains only to the government financial operations as the survey did not reveal any significant financial contribution of the nonfinancial public enterprises to the adjustment effort beyond price increases.

1/ One of the reasons for focusing on these enterprises is that in many instances, they have been used as fiscal (and income distribution) policy instruments.

a. Overall government deficit

Half of the programs in which a smaller fiscal deficit ratio was planned achieved a reduction although, for this group, the size of the actual adjustment was smaller than planned. 1/ Indeed, of the 18 financial programs that sought a decrease in the government deficit equal to or exceeding 1 per cent of GDP, 9 succeeded in reducing the deficit below this limit, although only 4 achieved the size of the reduction envisaged (Table 4). In these nine programs, the average deficit fell from the equivalent of 8.7 per cent of GDP during the preprogram year to 6.8 per cent a year later (moderately above the 5.4 per cent target (Table 5)). That is, about 58 per cent of the projected fiscal adjustment took place. Three of these nine programs which met the performance clauses also succeeded on the average in halving their preprogram year deficit as this deficit declined from the equivalent of 3.2 per cent of GDP to 1.5 per cent at the end of the program year (close to the average target of 1.2 per cent). Even among the members (six out of the nine) which did not observe the performance criteria, a noticeable adjustment took place: the average deficit fell by 2 percentage points to the equivalent of 9.5 per cent of GDP at the end of the program year (though still above the programed level of 7.5 per cent). However, it is to be noted that of the nine programs that succeeded in reducing the overall deficit by at least 1 per cent of GDP, there was overperformance only in the programs (two out of three) that observed the performance criteria.

Outside of the nine cases where a significant fiscal adjustment occurred, the overall fiscal position deteriorated significantly beyond expectations in several instances. Nine programs anticipated that the government deficit/GDP ratio would rise, but, in fact, the situation worsened in 15 cases, including 7 programs that sought a reduction in the overall fiscal deficit and 1 in which the ratio of the deficit to GDP was planned to remain virtually unchanged. In these 15 instances, the average deficit rose from the equivalent of 7.4 per cent of GDP in the preprogram year to 11.7 per cent a year later, quite well above the average target level of 8.6 per cent. Within this group, the deterioration was more pronounced in programs that did not anticipate a worsening of the overall fiscal position than in those that did. Indeed, instead of the overall government deficit declining in eight instances (including the case in which the deficit ratio was forecast to decrease only marginally) on the average from the equivalent of 6.5 per cent of GDP in the year preceding the program to 5.0 per cent, this deficit rose quite sharply to 9.8 per cent in the program year. On the other hand, the overall

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1/ Beveridge and Kelly, op. cit., p. 245, found that the overall deficit/GDP ratio was held within the target level in 50 per cent of the programs surveyed.

Table 4. Outturn of Main Fiscal Aggregates Contained in 1980 Stand-By Arrangements in the Upper Credit Tranches and Extended Arrangements 1/

(In number of programs)

	Fiscal Performance Clause		Program Without Fiscal Performance Clause	Total
	Observed	Not Observed		
Revenue (and grants)				
Increase in revenue by at least 1 per cent of GDP	5	4	1	10
Of which:				
1 percentage point	1 2/	3	--	4
2 percentage points	1	1 2/	--	2
3 percentage points or more	3 3/	--	1 2/	4
Decrease in revenue	4 2/	7 4/	--	11
Revenue remains virtually unchanged	1	3 3/	--	4
Data not available	--	1	--	1
Expenditure (and net lending)				
Decrease in expenditure by at least 1 per cent of GDP	3	6	--	9
Of which:				
1 percentage point	1	1	--	2
2 percentage points	1 5/	3 6/	--	4
3 percentage points or more	1	2 5/	--	3
Increase in expenditure	3 6/	5 7/	1	9
Expenditure remains virtually unchanged	4 6/	3 8/	--	7
Data not available	--	1	--	1
Overall deficit				
Decrease in overall deficit by at least 1 per cent of GDP	3	6	--	9
Of which:				
1 percentage point	1 9/	1 9/	--	2
2 percentage points	2 9/	4 9/	--	6
3 percentage points or more	--	1 9/	--	1
Increase in overall deficit	5 10/	9 11/	1	15
Overall deficit remains virtually unchanged	2 9/	--	--	2

Table 4. Outturn of Main Fiscal Aggregates Contained in the 1980 Stand-By Arrangements in the Upper Credit Tranches and Extended Arrangements (concluded) 1/

(In number of programs)

	Fiscal Performance Clause: Observed	Fiscal Performance Clause: Not Observed	Program Without Fiscal Performance Clause	Total
Role of revenue/expenditure in programed fiscal outturn				
Decrease in overall deficit mainly due to:				
Decrease in expenditure	1	4 12/	--	5
Increase in revenue	2 13/	1	--	3
Increase in overall deficit mainly due to:				
Increase in expenditure	2 13/	7 14/	1 12/	10
Decrease in revenue	2 12/	3	--	5
Other	2 15/	1 16/	--	3

Sources: Based on information contained in 1980 stand-by and extended Fund facility papers.

1/ Definitions: (1) In the other footnotes to this table, one star "*" denotes a target consisting of an increase in revenue equivalent to at least 1 per cent of GDP; (2) two stars "**" denote a target consisting of a decrease in expenditure equivalent to at least 1 per cent of GDP; (3) three stars (***) denote a target consisting of a decrease in the overall fiscal deficit equivalent to at least 1 per cent of GDP.
2/ The target * was sought in this program.
3/ The target * was sought in two of these programs.
4/ The target * was sought in three of these programs.
5/ The target ** was sought in this (these) program(s).
6/ The target ** was sought in two of these programs.
7/ The target ** was sought in three of these cases.
8/ The target ** was sought in one of these programs.
9/ The target *** was sought in the program(s) concerned.
10/ The target *** was sought in one of these cases.
11/ The target *** was forecast in six of these programs.
12/ Outturn projected in the program(s).
13/ Outturn forecast in one of these programs.
14/ Outturn forecast in two of these cases.
15/ The overall deficit remained unchanged in these programs.
16/ No adequate data on revenue and expenditure were available.

Table 5. Average Magnitude of the Fiscal Aggregates Contained in the 1980 Stand-by Arrangements in the Upper Credit Tranches and Extended Arrangements 1/

(In per cent of GDP, unless otherwise specified)

	Number of Programs	Outturn in Pre-program Year	Program Target	Program Outturn
Overall government deficit				
Decrease in overall deficit equals or exceeds 1 percentage point				
Sought	18	-8.6	-5.9	-9.1
Achieved	9	-8.7	-5.4	-6.8
Performance criteria observed	3	-3.2	-1.2	-1.5
Performance criteria not observed	6	-11.5	-7.5	-9.5
Increase in overall deficit				
Projected	7	-8.5	-12.8	-13.8
Occurred	15	-7.4	-8.6	-11.7
Of which: not programed	8	-6.5	-5.0	-9.8
Increase in overall deficit due to:				
Expenditure overruns	10	29.2	29.6	34.2
Revenue shortfalls	5	17.9	18.7	17.5
Revenue				
Increase in revenue equal to or exceeding 1 percentage point was sought	12	18.5	20.9	20.6
Planned increase in revenue was achieved	5	16.1	19.2	22.5
Performance criteria observed	3	20.8	24.5	29.3
Performance criteria not observed	2	9.0	11.3	12.4
No change in revenue was programed	4	18.7	18.9	19.1
Decrease in revenue was programed	9	23.1	19.0	22.2
Expenditure				
Decrease in expenditure equal to or exceeding 1 percentage point was sought	13	34.9	29.2	36.1
Planned decrease in expenditure was achieved	2	28.4	27.0	25.4
Substantial decrease in expenditure occurred	4	38.6	29.7	34.7
No change in expenditure was programed	5	17.4	17.2	17.0
Increase in expenditure was programed	7	30.6	35.3	34.9

Source: Based on information contained in the 1980 stand-by and extended Fund facility papers.

1/ The information contained in this table may be interpreted in the following manner using the first two rows of figures as examples. Of the 26 programs under review, 18 sought to reduce the overall fiscal deficit by at least 1 per cent of GDP. However, in these 18 instances, on average, the overall government deficit rose from the targeted 5.9 per cent of GDP to 9.1 per cent, moderately above the 8.6 per cent realized during the preprogram year. Of these 18 programs, 9 achieved a reduction in the overall deficit, though by less (1.9 per cent of GDP on average) than forecast (3.3 per cent).

deficit in the other seven programs exceeded the target by one percentage point (from the projected level of 12.8 per cent of GDP to 13.8 per cent), to reach a level well above the 8.5 per cent recorded in the preprogram year.

In the remaining 2 of the 26 programs surveyed, in contrast with the projected reduction in the overall deficit ratio, there was no significant change in this ratio (relative to the preprogram year).

Turning to the relative impact of revenue and expenditure on the fiscal position, the survey revealed that the reduction in the overall deficit (where achieved) was due more often to expenditure-containment measures 1/ than to revenue-increasing measures. Of the nine programs that achieved a significant fiscal adjustment, a lower expenditure ratio was the principal contributory factor to the reduction in the overall deficit ratio in five instances compared with three cases for the (higher) revenue ratio. 2/ This finding would tend to support the view that, in the short run, the possibility for substantial increases in revenue is limited. Hence, more emphasis should be placed on controlling spending growth. Furthermore, given the generally larger expenditure base than revenue base, in many instances, a relatively small percentage reduction in outlays could prove a very valuable contribution toward fiscal adjustment.

It appeared also from the survey that expenditure overruns were more frequently responsible for the deterioration in the fiscal position. Within the group of 15 programs in which the overall deficit rose, a substantially higher-than-programed level of expenditure contributed principally to the deterioration in the fiscal balance in 10 instances, compared with 5 in which revenue shortfalls were the primary factor. In these ten programs, the average expenditure/GDP ratio, instead of remaining close to the 29 per cent realized in the preprogram year and the 30 per cent projected for the program period, rose to 34 per cent. On the other hand, the revenue shortfall was more moderate as the average revenue/GDP ratio fell by less than 1 per cent (relative to the preprogram year level) to reach 17.5 per cent (close to the 17.9 per cent achieved during the preprogram year). This preponderance of spending overruns relative to revenue shortfalls as the major source of imbalance in the fiscal operations, together with the size of the overruns, further underscores the view that increased attention should be devoted to the formulation of more realistic expenditure policies and their effective implementation.

1/ Shortfalls in foreign loan drawings led to lower expenditure in some instances.

2/ No adequate breakdown of revenue and expenditure data was available in the ninth case.

b. Revenue and expenditure

In broad terms, revenue increased in as many programs as expenditure decreased. Of the 26 programs under review, the revenue/GDP ratio rose by at least 1 per cent in 10 cases compared with 9 in which the expenditure/GDP ratio declined. Also, insofar as the outturn in comparison with the targets is concerned, revenue reached or exceeded planned levels more often than spending was kept to or below program levels. Indeed, the revenue ratio expanded at least as fast as planned in 42 per cent of the programs (5 out of 12) that sought an increase, whereas expenditure declined in 15 per cent of the programs (2 out of 13) envisaging this decrease. 1/ In 5 of the 12 programs that aimed at a revenue expansion, total receipts grew on the average from the equivalent of 16.1 per cent of GDP in the preprogram year to 22.5 per cent a year later, well above the 19.2 per cent projected. In contrast, the decrease in the expenditure to GDP ratio while larger, nevertheless was well below expectations: on the average, this ratio declined by about 4 percentage points to reach 34.7 per cent (relative to the preprogram year level)--substantially below the near 9 percentage points decrease envisaged in 4 of the 13 programs that aimed at this objective. Among the factors that have led to the asymmetry between revenue and expenditure developments were the generally less optimistically programed expansion of revenue relative to the targeted cutbacks in outlays, the more specific nature of revenue measures in comparison with spending measures, and the automatic upward response of revenue to devaluation and inflation, especially when most tax rates are ad valorem. The survey revealed also that, in a number of instances, expenditure grew concomitantly with a fall in revenue, hence, contributing to the worsening fiscal position.

c. Overall deficit and bank credit to the government

The observance of the ceiling on bank credit to the government (a performance clause) did not appear to bear any strong relationship to the realization of the overall fiscal deficit target in several instances. Of the six programs that met this ceiling and aimed at a decrease in the overall deficit ratio by at least 1 per cent of GDP, only three succeeded in reducing this ratio. In one of these three cases, no purchase of Fund resources was made as revenue (mainly oil revenue) was buoyant and expenditure was contained. In another instance, the revenue target was achieved along with a small overperformance in the expenditure area. Furthermore, domestic nonbank financing exceeded projection so that no large reliance on bank credit occurred. No adequate breakdown of the financing data was available in the third case. Regarding the other three instances in

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1/ Beveridge and Kelly, op. cit., p. 241, also found that revenue targets were more frequently achieved than expenditure targets.

which the performance clauses were observed and a reduction in the fiscal deficit was programed, the overall balance of government operations remained unchanged (relative to the preceding year) in two programs while the deficit rose in the remaining one. The ceiling on government borrowing from the banking system was observed in these three programs either as a result of larger-than-forecast foreign financing or higher domestic nonbank resources. It is worth noting that only two of the above six programs envisaged a decrease in the government deficit ratio by more than 3 per cent of GDP. On the other hand, a reduction in the fiscal deficit occurred in many programs although the ceiling on bank credit to government was exceeded. Indeed, it appeared from the survey that half of the programs that envisaged a 1 per cent minimum decrease in the government deficit/GDP ratio, but did not observe the performance criteria, achieved the planned fiscal adjustment. A relatively satisfactory control of expenditure growth was responsible for this success as revenue fell below the target in a number of cases. However, as a result chiefly of shortfalls in foreign financing, government borrowing from the banking system was generally higher than planned and the credit ceilings were not observed.

V. Fiscal and External Sectors Adjustment: Targets and Outcome

A primary purpose of fiscal policy measures is to affect the aggregate demand for real and financial assets and, as a result, cause movements in the current account position and in the overall balance of payments. An expansionary fiscal policy, resulting in an overall deficit largely financed by domestic bank credit, will tend to increase the demand for foreign (and domestic) commodities thus contributing to a deterioration in the current account of the balance of payments, referred to hereafter simply as the current account balance, ceteris paribus. In the absence of a large net inflow of foreign capital, the overall balance of payments will also deteriorate. Hence, there are relationships between the fiscal deficit and the current account balance on the one hand and domestic bank financing of this deficit and the overall balance of payments on the other hand. 1/

1. Overall government deficit and the current account

In this subsection, the fiscal outturn relative to the current account outturn is compared with the targeted fiscal and current account adjustment. From the survey, it is apparent that expectations

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1/ For an examination of the theoretical and empirical relationships between the fiscal and balance of payments aggregates, see Margaret R. Kelly, "Fiscal Adjustment and Fund-Supported Programs, 1971-80," Staff Papers, Vol. 29 (December 1982), pp. 561-602.

about a fiscal performance that would be significantly stronger than an adjustment in the current account were only broadly achieved. Seven of the 26 programs reviewed sought a reduction in the government deficit ratio that would exceed the planned decrease in the current account deficit ratio by at least 1 per cent of GDP. Relative to the preprogram year, on the average the overall fiscal deficit was projected to decline in these seven programs by 4.6 percentage points to reach 7.7 per cent of GDP, whereas the current account deficit was forecast to fall by 1.2 percentage points to reach 9.6 per cent of GDP. This provides some indication that the government sector was seen as the main source of the imbalance in the external sector in these programs and, more importantly, that the adjustment was envisaged to be achieved principally through the fiscal accounts (Table 6). Contrary to expectations, on the average the government deficit fell only marginally by 0.5 percentage point while the current account deficit rose by the equivalent of 0.9 per cent of GDP in these seven cases. This considerably weaker than expected adjustment in the government sector probably played a major role in the unexpected deterioration in the current account position in 1980.

The breakdown by outcome of the seven programs that aimed at a decrease in the fiscal deficit ratio exceeding the targeted fall in the current account deficit by at least 1 per cent of GDP revealed that only one 1/ achieved this goal (Table 7). The magnitude of the adjustment in the fiscal and current accounts was virtually the same in two of the seven programs whereas the outcome in two other instances was characterized by an improved current account outturn in conjunction with a worsened fiscal position, an indication of an unexpected over-expansion in the government sector of the economy during the program year. The fiscal position improved only moderately relative to the current account outturn in one case while it deteriorated significantly in the seventh program. On the other hand, there was one instance in which an overperformance was achieved in both the government and current accounts. 2/ Thus, in these seven programs, a fiscal adjustment in the form of a lower government deficit/GDP ratio where achieved

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1/ This member aimed at a decrease in the overall fiscal deficit ratio exceeding by 2 percentage points the decrease in the current account deficit ratio. However, it achieved only a 1 percentage point difference between the two ratios.

2/ There was a variety of outcomes in relation to the targets in the remaining 18 of the 26 programs surveyed. In 5 of these 18 cases, the current account position was expected to deteriorate (by an average of 2.6 per cent of GDP) while an improvement (averaging 1.6 per cent of GDP) was sought in the government sector during the program year. This outcome occurred in only one instance. In three of these five other programs, the current account deficit/GDP ratio rose (by an average of 4.7 per cent) and the fiscal position deteriorated unexpectedly (by an average of 4.3 per cent). In contrast, there was overperformance in the

Table 6. 1980 Stand-By Arrangements in the Upper Credit Tranches and Extended Arrangements: Average Magnitude of Imbalances in the Government and External Sectors 1/

(In per cent of GDP, unless otherwise specified)

	Number of Programs	Outturn in Preprogram Year	Program Target	Program Outturn
Fiscal and current account imbalances				
Decrease in fiscal deficit exceeding decrease in current account deficit by at least 1 per cent was sought				
Overall fiscal deficit	7	-12.3	-7.7	-11.8
Current account deficit	7	-10.8	-9.6	-11.7
Fiscal adjustment equals or exceeds current account adjustment				
Overall fiscal deficit	6 2/	-11.5	-7.1	-10.1
Current account deficit	6 2/	-9.1	-8.3	-10.8
Bank credit to government (net) and overall balance of payments				
Decrease in bank credit to government exceeding decrease in balance of payments deficit by at least 1 per cent was sought				
Bank credit to government	7	5.9	2.9	7.1
Balance of payments deficit	7	-3.7	-3.6	-4.5
Breakdown by program outcome				
Fiscal adjustment exceeds balance of payments adjustment				
Bank credit to government	2	8.1	3.6	6.0
Balance of payments deficit	2	-0.2	-0.3	-3.4
Deterioration in fiscal posture exceeds deterioration in balance of payments				
Bank credit to government	2	9.1	6.6	14.4
Balance of payments deficit	2	-7.3	-7.7	-9.6
Balance of payments adjustment exceeds fiscal adjustment				
Bank credit to government	1	4.2	2.4	2.4
Balance of payments deficit/surplus	1	-4.2	-3.7	0.4
Deterioration in fiscal position associated with stable or improved balance of payments				
Bank credit to government	2	1.3	-1.0	3.3
Balance of payments	2	-3.4	-3.2	-3.1

Table 6. 1980 Stand-By Arrangements in the Upper Credit Tranches and Extended Arrangements: Average Magnitude of Imbalances in the Government and External Sectors 1/ (concluded)

(In per cent of GDP, unless otherwise specified)

	Number of Programs	Outturn in Preprogram Year	Program Target	Program Outturn
teriorlation in fiscal posture associated with persistent balance of payments deficits				
Bank credit to government	4 3/	2.9	4.3	5.7
Balance of payments deficit	4 3/	-3.1	-2.1	-3.1
teriorlation in balance of payments exceeds deterioriation in fiscal posture				
Bank credit to government	4 4/	0.6	1.0	1.9
Balance of payments deficit	4 4/	-0.1	-3.2	-3.6
lance of payments adjustment exceeds fiscal adjustment				
Bank credit to government	2 5/	2.7	1.5	1.8
Balance of payments deficit	2 5/	-2.9	-2.3	-0.2

Source: Based on information contained in the 1980 stand-by and extended Fund facility pers.

1/ The information contained in this table may be interpreted in the following manner, ng the first two rows of figures as examples. Of the 26 programs surveyed, 7 aimed at eduction in the overall fiscal deficit that would exceed the reduction in the current ount deficit by at least 1 per cent of GDP: on average the government deficit was forecast decline by 4.6 per cent of GDP compared with a 1.2 per cent targeted decrease in the rent account deficit. Instead of such an outcome, both the fiscal deficit and the current ount deficit rose by 0.5 per cent and 0.9 per cent respectively.

/ Including one instance in which the fiscal deficit declined unexpectedly by more than decrease in the current account deficit.

/ Outcome expected in only one of these programs.

/ Outcome expected in three of these programs.

/ Outcome expected in one of these programs.

Short- and Medium-Term Interest Rates

(Monthly and weekly averages)

	National Money Markets 1/						Euro-currency Markets 2/						Lending Rate		U.S.
	United States (1)	Germany (2)	United Kingdom (3)	France (4)	Japan (5)	Weighted average (6)	U.S. dollar (7)	Deutsche mark (8)	Pound sterling (9)	French franc (10)	Japanese yen (11)	Swiss franc (12)	LIBOR 3/ (13)	U.S. prime 4/ (14)	Treasury 5/ Securities (15)
1982															
May	12.66	9.31	13.36	16.39	7.29	11.88	14.61	8.67	13.35	24.97	7.06	3.93	14.62	16.50	13.75
June	13.04	9.40	12.86	15.90	7.37	11.99	15.55	8.98	13.05	18.70	7.22	5.38	15.75	16.50	14.43
July	11.73	9.58	12.29	14.83	7.40	11.20	14.39	9.00	12.39	15.77	7.27	4.38	14.96	16.26	14.07
Aug.	9.00	9.13	10.98	14.68	7.44	9.62	11.65	8.65	11.15	17.62	7.39	4.22	12.64	14.39	13.00
Sept.	8.21	8.29	10.36	14.24	7.31	8.94	11.85	7.83	10.93	19.43	7.38	4.08	12.75	13.50	12.25
Oct.	7.97	7.68	9.59	13.65	7.19	8.56	10.51	7.19	9.82	19.01	7.03	3.75	10.82	12.52	10.80
Nov.	8.34	7.41	9.08	13.16	7.23	8.59	9.82	7.07	9.35	18.77	7.12	3.83	10.06	11.85	10.38
Dec.	8.20	6.71	10.30	12.90	7.19	8.49	9.57	6.38	10.55	22.46	7.05	3.73	9.84	11.50	10.22
1983															
Jan.	8.15	5.90	10.72	12.76	7.00	8.32	9.01	5.53	11.17	21.16	6.52	2.80	9.25	11.16	10.03
Feb.	8.40	5.92	11.14	13.07	6.92	8.51	9.22	5.66	11.33	22.11	6.71	2.98	9.53	10.98	10.26
Mar.	8.67	5.52	10.95	12.77	6.85	8.50	9.32	5.06	10.98	26.92	6.71	3.67	9.53	10.50	10.08
Apr.	8.52	5.27	10.30	12.31	6.76	8.26	9.26	5.02	10.25	13.37	6.29	4.28	9.44	10.50	10.02
May	8.50	5.39	10.08	12.73	6.66	8.27	9.03	5.04	10.25	13.90	6.29	4.53	9.18	10.50	10.03
1982 Weekly															
June 4	12.64	9.27	13.18	16.48	7.34	11.87	14.63	8.72	13.22	27.75	7.13	4.25	14.75	16.50	13.98
11	12.60	9.31	12.77	16.48	7.34	11.82	14.93	8.98	12.92	n.a.	7.14	5.14	15.14	16.50	14.04
18	13.04	9.36	12.77	15.51	7.38	11.93	15.68	8.91	12.91	17.88	7.20	5.67	15.86	16.50	14.48
25	13.49	9.50	12.77	15.49	7.40	12.18	16.26	9.12	13.05	17.69	7.30	6.10	16.54	16.50	14.90
July 2	13.41	9.60	12.87	15.18	7.40	12.14	16.23	9.21	13.11	16.55	7.34	5.38	16.49	16.50	14.73
9	12.78	9.68	12.82	14.73	7.40	11.80	15.72	9.16	12.72	15.82	7.17	5.00	15.98	16.50	14.48
16	12.13	9.59	12.32	14.85	7.40	11.41	14.80	9.01	12.44	15.50	7.41	4.46	15.13	16.50	14.10
23	10.72	9.55	12.15	14.75	7.40	10.68	13.54	8.86	12.27	15.71	7.29	3.65	14.21	16.35	13.66
30	10.94	9.52	11.74	14.93	7.40	10.74	13.13	8.93	11.98	16.15	7.19	4.27	14.18	16.00	13.89
Aug. 6	10.18	9.44	11.54	14.88	7.42	10.34	12.48	8.78	11.61	16.38	7.21	4.28	13.38	15.29	13.62
13	10.08	9.48	11.22	14.63	7.42	10.23	12.75	9.11	11.38	16.58	7.49	4.47	13.75	15.00	13.59
20	8.14	9.10	11.10	14.64	7.47	9.20	10.74	8.56	10.88	16.44	7.44	4.08	11.75	14.71	12.53
27	7.75	8.67	10.32	14.73	7.46	8.85	10.54	8.21	10.85	20.48	7.43	4.06	11.68	13.79	12.38
Sept. 3	8.65	8.47	10.39	14.09	7.40	9.20	11.71	8.19	10.93	21.22	7.38	4.06	12.72	13.50	12.54
10	8.63	8.35	10.25	14.26	7.34	9.16	11.61	7.86	10.91	20.19	7.39	3.81	12.66	13.50	12.43
17	8.31	8.28	10.29	14.42	7.32	9.00	12.20	7.79	10.95	18.65	7.42	4.10	13.16	13.50	12.47
24	7.78	8.22	10.52	14.32	7.27	8.74	11.88	7.69	11.00	19.31	7.41	4.10	12.73	13.50	12.11
Oct. 1	7.77	8.22	10.32	14.04	7.25	8.68	11.65	7.82	10.73	18.28	7.29	4.34	12.29	13.50	11.74
8	8.20	8.00	10.12	13.98	7.21	8.82	11.56	7.59	10.50	17.54	7.30	4.25	12.00	13.50	11.29
15	7.72	7.65	9.82	13.66	7.21	8.46	10.24	7.05	9.70	17.88	6.88	3.55	10.45	12.86	10.46
22	7.78	7.50	9.35	13.59	7.15	8.40	9.94	6.95	9.43	20.45	6.90	3.49	10.23	12.00	10.50
29	8.19	7.44	8.96	13.24	7.17	8.52	10.07	7.04	9.50	20.35	6.95	3.61	10.35	12.00	10.73
Nov. 5	8.04	7.42	9.28	13.10	7.19	8.46	9.74	6.99	9.29	19.00	7.01	3.49	9.93	12.00	10.34
12	8.35	7.35	8.78	13.12	7.25	8.55	9.82	7.07	9.16	n.a	7.09	3.69	9.98	12.00	10.44
19	8.60	7.43	8.78	13.22	7.25	8.70	10.03	7.12	9.20	18.13	7.16	4.07	10.28	12.00	10.51
26	8.21	7.41	8.98	13.18	7.21	8.51	9.69	7.08	9.27	18.46	7.15	4.06	10.01	11.50	10.21
Dec. 3	8.42	7.23	10.32	13.03	7.21	8.17	9.80	6.88	10.23	19.35	7.31	3.89	10.14	11.50	10.31
10	8.23	6.57	9.98	12.80	7.21	8.44	9.50	6.34	10.11	19.83	6.96	3.47	9.78	11.50	10.26
17	8.07	6.67	10.52	12.90	7.21	8.45	9.63	6.44	10.66	22.85	7.05	4.07	9.93	11.50	10.23
24	8.17	6.76	10.42	12.96	7.15	8.50	9.61	6.44	11.06	26.50	7.08	3.97	9.86	11.50	10.22
31	8.28	6.62	10.25	12.93	7.15	8.51	9.41	5.98	10.72	24.21	6.88	3.36	9.61	11.50	10.15
1983 Weekly															
Jan. 7	8.32	6.05	10.05	12.83	7.08	8.38	9.03	5.74	10.52	23.78	6.57	3.11	9.23	11.50	10.04
14	7.92	5.74	10.25	12.67	7.02	8.12	8.80	5.38	11.33	21.43	6.44	2.69	9.00	11.36	9.88
21	8.01	5.73	11.13	12.72	n.a.	n.a.	8.88	5.40	11.14	20.28	6.40	2.55	9.10	11.00	9.92
28	8.33	6.05	11.20	12.80	6.95	8.48	9.27	5.57	11.60	19.35	6.65	2.83	9.58	11.00	10.22
Feb. 4	8.45	6.03	11.34	12.95	6.95	8.56	9.45	5.75	11.57	20.30	6.69	2.95	9.80	11.00	10.38
11	8.51	6.00	11.30	13.05	6.95	8.59	9.29	5.80	11.24	21.00	6.73	2.99	9.66	11.00	10.45
18	8.44	5.90	10.98	13.16	6.91	8.51	9.18	5.68	11.13	23.63	6.68	2.89	9.46	11.00	10.28
25	8.22	5.78	11.00	13.05	6.89	8.37	9.08	5.49	11.40	22.85	6.74	3.03	9.31	11.00	9.95
Mar. 4	8.26	5.68	11.16	13.15	6.89	8.40	8.85	5.26	11.34	24.85	6.74	3.06	9.06	10.50	9.76
11	8.56	5.58	11.13	13.18	6.89	8.52	9.15	5.10	11.16	36.70	6.74	3.43	9.32	10.50	10.03
18	8.63	5.55	11.23	12.88	6.83	8.52	9.31	5.08	10.78	41.70	6.74	3.89	9.54	10.50	10.08
25	8.88	5.41	10.52	12.52	6.83	8.49	9.56	4.93	8.63	15.53	6.74	3.94	9.75	10.50	10.26
Apr. 1	8.97	5.40	10.66	12.17	6.83	8.53	9.70	4.95	10.86	12.22	n.a.	4.00	9.94	10.50	10.28
8	8.77	5.30	10.66	12.42	6.79	8.43	9.56	5.02	10.28	14.11	6.39	4.02	9.74	10.50	10.13
15	8.47	5.24	10.19	12.04	6.76	8.18	9.28	5.00	10.15	13.38	6.24	4.10	9.46	10.50	9.98
22	8.43	5.23	10.19	12.34	6.76	8.19	9.23	5.05	10.26	13.38	6.28	4.30	9.39	10.50	10.02
29	8.42	5.33	10.08	12.47	6.70	8.20	9.05	5.02	10.25	12.98	6.25	4.65	9.24	10.50	9.95
May 6	8.32	5.37	9.98	12.80	6.70	8.18	8.84	5.00	10.15	14.70	6.24	4.37	8.96	10.50	9.77
13	8.33	5.37	9.92	12.80	6.70	8.18	8.79	4.99	10.19	13.98	6.20	4.32	8.91	10.50	9.84
20	8.45	5.37	10.15	12.67	6.63	8.24	9.07	5.02	10.35	13.70	6.30	4.51	9.21	10.50	10.10
27	8.80	5.44	10.29	12.67	6.63	8.45	9.29	5.10	10.32	13.38	6.37	4.86	9.48	10.50	10.32

1/ As of January 1, 1981, the combined market interest rate under the amended Rule T-1 is calculated by multiplying the yield or rate on each of the respective instruments listed below by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the SDR of a unit of that currency as determined by the Fund under Rule O-2(a) and (b). The interest rates and the respective currency units (shown in parentheses) are as follows: market yield for three-month U.S. Treasury bills (0.54), three-month interbank deposit rate in Germany (0.46), three-month interbank money rate against private paper in France (0.74), discount rate on two-month (private) bills in Japan (34), and market yield for three-month U.K. Treasury bills (0.071).

2/ Euro-currency interest rates are those on three-month deposits for the U.S. dollar, the Deutsche mark, the Swiss franc, and the French franc (in London), and for the pound sterling (in Paris).

3/ LIBOR is six-month euro-dollar offered rate in London.

4/ Prime lending rate of major New York banks.

5/ Yield is adjusted to constant five-year maturity by the U.S. Treasury and is based on only recently issued, actively traded securities. The interest rate paid to lenders and charges on drawings under the Supplementary Financing Facility are based on this rate.

Table 7. 1980 Stand-By Arrangements and Extended Arrangements: Comparison of Fiscal Outturn with Balance of Payments Outcome 1/

(In number of programs)

	Fiscal Performance Clause		Program Without Fiscal Performance Clause	Total
	Observed	Not Observed		
Fiscal and current account outturn				
Decrease in fiscal deficit exceeds decrease in current account deficit by at least 1 per cent of GDP	1	1	--	2
Of which:				
1 percentage point	1	1 2/	--	2
2 percentage points or more	--	--	--	--
Decrease in fiscal deficit less than decrease in current account deficit	1	1 3/	--	2
Decrease in fiscal deficit along with increase in current account deficit	1	3 4/	--	4
Increase in fiscal deficit along with increase in current account deficit	2	6	1	9
Other	5 5/	4 6/	--	9
Fiscal and balance of payments outturns				
Decrease in bank credit to government along with increase in balance of payments deficit	1	2	--	3
Decrease in bank credit to government along with decrease in balance of payments deficit	1	--	--	1
Increase in bank credit to government along with decrease in balance of payments deficit	2	3	--	5
Increase in bank credit to government along with increase in balance of payments deficit	4	3	--	7
Other	2	7	1	10

Sources: Based on information contained in 1980 stand-by and extended Fund facility papers.

1/ Definition: In the footnotes below, one star "*" denotes a target consisting of a decrease in the government deficit/GDP ratio exceeding the decrease in the current account deficit/GDP ratio by 1 per cent.

2/ The decrease in the government deficit/GDP ratio was forecast to exceed the decrease in the current account deficit/GDP ratio by 2 percentage points in this program.

3/ The target * was sought in this program.

4/ The target * was sought in two of these programs.

5/ The target * sought in two of these programs was not achieved: both the fiscal and current account deficits decreased by the same magnitude in one instance and remained virtually unchanged in the other.

6/ The target * sought in one of these programs was not achieved; instead the government deficit rose while the current account balance remained practically the same.

	1	1 3/	--	2
Decrease in fiscal deficit along with increase in current account deficit	1	3 4/	--	4
Increase in fiscal deficit along with increase in current account deficit	2	6	1	9
Other	5 5/	4 6/	--	9
Fiscal and balance of payments outturns				
Decrease in bank credit to government along with increase in balance of payments deficit	1	2	--	3
Decrease in bank credit to government along with decrease in balance of payments deficit	1	--	--	1
Increase in bank credit to government along with decrease in balance of payments deficit	2	3	--	5
Increase in bank credit to government along with increase in balance of payments deficit	4	3	--	7
Other	2	7	1	10

Sources: Based on information contained in 1980 stand-by and extended Fund facility papers.

1/ Definition: In the footnotes below, one star "*" denotes a target consisting of a decrease in the government deficit/GDP ratio exceeding the decrease in the current account deficit/GDP ratio by 1 per cent.

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3/ The target * was sought in this program.

4/ The target * was sought in two of these programs.

5/ The target * sought in two of these programs was not achieved: both the fiscal and current account deficits decreased by the same magnitude in one instance and remained virtually unchanged in the other.

6/ The target * sought in one of these programs was not achieved; instead the government deficit rose while the current account balance remained practically the same.

[redacted]

projected) in the four cases so programed. 1/ Thus, at the risk of an overgeneralization, the survey indicated that in several instances, improvement (deterioration) in the government financial operations is associated with improvement (worsening) in the current account position both in terms of program targets and outturns.

2. Bank credit to government and the overall balance of payments

Taking into consideration net capital inflows, seven programs sought to reduce net government borrowing from the banking system (as a ratio to GDP) more rapidly than the decrease in the balance of payments deficit. In these programs, the credit to the government/GDP ratio was forecast to fall from the preprogram year level of 5.9 per cent (on the average) to 2.9 per cent, a reflection of earlier expansionary fiscal policies. On the other hand, the balance of payments deficit was expected to remain virtually unchanged at around the equivalent of 3.6 per cent of GDP. These expectations were not met in either sector as the ratio of government borrowing from banks to GDP rose on average by 1.2 percentage points instead of declining by 3.0 percentage points while the balance of payments deficit/GDP ratio increased by about 1 per cent instead of remaining constant.

A closer examination of the data pertaining to these seven programs revealed that the deterioration in the fiscal situation and hence, the inability of the government sector to contribute to the adjustment (if any) in the external sector was not uniform across programs, and in general the magnitude of the underperformance in the government accounts, measured by the ratio of bank credit to GDP when it occurred, exceeded that recorded in the external accounts. Indeed, the ratio of credit to the government declined on the average by 2.0 percentage points compared with a target of 4.5 percentage points in two of these seven programs despite shortfalls in net foreign drawings. On the other hand, as a result chiefly of lower net inflows of both public and private foreign capital, the balance of payments showed a deficit that exceeded the preprogram year level by 3.2 percentage points instead of registering a surplus (though marginal). It should be noted that there was a relative overperformance in the fiscal sector in one of these two cases in the sense that bank credit to the government declined by the magnitude expected while a balance of payments deficit was recorded instead of a programed surplus. There was a more pronounced underperformance in the government sector than in the external sector in two other programs as government bank borrowings (as a ratio to GDP) rose by 5.3 percentage points to reach 14.4 per cent (well above the target of

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1/ The fiscal and current account balances were programed to remain unchanged (relative to the preceding year) or to move in opposite directions in the remaining 12 programs. Similarly, the outcome in terms of direction of movement of these balances was mixed.

6.6 per cent) while the balance of payments deficit increased by 2.3 percentage points to 9.6 per cent (moderately above the 7.7 per cent target). Contrary to expectations, the fiscal situation deteriorated sharply in two programs as bank credit to government more than doubled from a preprogram year average of 1.3 per cent to 3.3 per cent a year later instead of falling by 1 per cent; at the same time, the overall balance of payments remained virtually stable or improved marginally. The adjustment in the external sector exceeded the fiscal adjustment in the seventh program that sought to reduce government borrowing from the banking system more rapidly than the decrease in the balance of payments deficit. 1/ Hence, in general,

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1/ The outcome of the 19 remaining programs that did not aim at a decrease in the bank credit to government ratio exceeding the fall in the balance of payments deficit by at least 1 per cent of GDP was mixed. The fiscal situation deteriorated quite significantly in four programs as the ratio of bank credit/GDP rose by 2.8 percentage points compared with the target increase of 1.4 percentage points. Concomitantly, the balance of payments deficit ratio remained unchanged, in contrast with a targeted decrease by 1 percentage point. As a result of generally lower-than-expected inflows of foreign capital, both the recourse to bank credit and the balance of payments deficit increased in four other programs. A significant adjustment in the balance of payments of two members occurred as the overall balance of the foreign sector operations was in near equilibrium (-0.2 per cent) compared with the deficit forecast (-2.3 per cent), reflecting both a noticeable improvement in the current account and net capital inflows (data on bank financing of the government deficit are not available for most of the remaining nine programs). Similarly, the financial situation of the government sector improved, though by a much smaller magnitude than the improvement in the external sector: the ratio of the actual decrease in bank credit to government to the projected decrease in this aggregate was about 0.8 compared with a ratio of 4.5 for the balance of payments. In general, shortfalls in net foreign drawings were responsible for the larger-than-expected recourse to bank credit and balance of payments deficits recorded. In a few of the remaining instances, despite large inflows of (net) foreign loans, expansionary fiscal policies resulting in larger-than-programed overall fiscal deficit (along with a less than commensurate domestic nonbank financing) have led to large recourse to bank credit--hence, contributing to the worsening of the balance of payments position.

where expansionary fiscal policies leading to large bank borrowings were deemed to have contributed significantly to imbalances in the external sector during the preprogram period and a reversal of these policies was sought, in general, no significant decrease in bank borrowing relative to the balance of payments deficit occurred.

VI. Concluding Remarks

A particularly detailed study (largely beyond the scope of a survey) is necessary in order to determine and evaluate the reasons for the success or failure of the 1980 financial adjustment programs undertaken by Fund members. However, a few general observations can be made about factors that might have contributed to the unsuccessful implementation of the programs under review insofar as the fiscal aspects are concerned. 1/

First, in many instances the programs reflected too optimistic a view as to the size of the macroeconomic targets, the policy measures (and projected yields), and the speed and magnitude of the administrative improvements required in order to achieve these targets. Revenue was forecast to rise by at least 2 per cent of GDP in six programs and expenditure to decrease also by a minimum of 2 per cent (of GDP) in 12 programs. The survey indicated that these revenue expectations were met in three programs. Similarly, the expenditure/GDP ratio was reduced by 2 percentage points or more in only three instances. Of the ten programs envisaging a minimum 3 per cent (of GDP) cutback in outlays, only two were successful. Many programs contained revenue and expenditure policy measures in support of their ambitious aspirations. However, while the revenue measures were often specific and were generally implemented, the expenditure reduction policies on which much of the fiscal adjustment depended, tended to be less well specified and dealt almost invariably with the wage bill and government employment. Rarely was the impact of the expenditure control policies quantified. Given the difficulties associated with developing effective expenditure containment policies, and the generally slow pace of implementation of these policies as well as the limited favorable effect of improvement in the tax administration, almost total reliance was implicitly placed on revenue-increasing policy measures to bring about the fiscal adjustment in several instances. However, experience has shown that rarely does a rapid growth in revenue occur in non-oil producing countries in the short run. Thus, it is of little surprise

1/ Reasons for the success of some programs include the effective implementation of the revenue and expenditure measures, favorable events such as unexpected abundant harvests, increased foreign demands, and improved terms of trade. Conservative revenue projections along with very prudent expenditure forecasts enhanced the attainability of fiscal targets in a few instances.

that the ambitious fiscal targets contemplated were not achieved during the one-year period. This would suggest that emphasis needs to be placed upon setting somewhat more realistic fiscal targets supported by more substantive expenditure policies that do not overestimate the administrative capacity of members in carrying out these policies.

Second, sometimes administrative and political considerations prevented the full implementation of the programed fiscal policy measures, hence, contributing to the underperformance in the government sector. In some instances, the programs incorporated only plans to take action or to submit bills containing the revenue and expenditure measures to national legislative bodies. In one such case, the legislature scaled down the fiscal measures, hence, reducing chances for a successful fiscal adjustment. There were also programs in which some fiscal measures were taken, then repealed, because of widespread discontent. This partial implementation of revenue and expenditure policies designed in the context of severe adjustment problems was certainly an important factor that prevented the improvement of government financial operations in a number of instances.

Third, rapid inflation was a major problem in several cases as evidenced by the fact that nearly one third of the programs specifically aimed at combating price increases. However, the survey revealed no special measures taken to adapt the tax system to inflationary pressures in most programs. As a result, the growth in the revenue base did not keep close pace with inflation, hence, failing to contribute to the fiscal adjustment as significantly as might have been expected.

Fourth, some of the adjustment programs were not successfully carried out because some local unforeseen events had an unfavorable impact on the national economy in general, and on the fiscal situation in particular. In some cases, severe, sudden, and prolonged weather changes (droughts and hurricanes) destroyed almost completely some important agricultural crops, hence, reducing food supply and export earnings during the program year. In these economies, not only was there a sudden large decrease in the tax base (due to lower total income and imports) but also increased outlays in the form of food subsidies or loans to public enterprises to import food items. In a few instances, a more or less unanticipated involvement in international armed conflicts led to unexpectedly large expenditure. As a result, the planned fiscal adjustment was not achieved.

Fifth, unfavorable external developments quite often unforeseen or difficult to forecast had played a role in the unsuccessful implementation of several programs. Unfavorable developments in the prices of imported raw materials, energy products, and manufactured goods as well as services resulted in major deviations of the fiscal and other macroeconomic variables from their initial targets. In addition, an unforeseen decline in the foreign demand of agricultural products and the deterioration in the terms of trade of some members contributed to the erosion of the tax bases. Furthermore, unplanned higher payments of interest as well as the appreciation of the major international currencies contributed to the worsening of the fiscal situation in several instances.

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