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EBS/83/96
Correction 1

CONFIDENTIAL

June 8, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Ivory Coast - Staff Report for the 1983 Article IV Consultation and Review of Extended Arrangement

The following corrections have been made in EBS/83/96 (5/13/83):

Page 35, item 5, line 6: for "end of 1983" read "end of 1982"

item 6, line 5: for "including multinational" read "excluding multinational"

A corrected page is attached.

Att: (1)

5. As at September 30, 1982, all of the program's performance criteria had been met, and Ivory Coast had carried out all the purchases scheduled for the first two years under the extended facility. All performance criteria were also met at December 31, 1982, apart from the reduction in domestic government arrears, which was partly due to the shortfall in financial borrowing at the end of 1982. The Government requests a waiver of the performance criterion on payment arrears outstanding at end-December 1982.

6. Despite the austerity policy pursued during the past two years, the economic and financial situation continues to give rise to concern. Foreign public debt servicing, which had risen by 61 per cent from 1980 to 1982, will increase by 31 per cent in 1983 to reach CFAF 380 billion, or 13 per cent of GDP, excluding multinational enterprises. The Government is aware of the need to reduce the recourse to borrowing by stimulating public and private savings.

7. As foreign debt servicing will constitute a major constraint in the next few years, the Government has made every effort to improve debt service forecasting and to analyze the extent to which changes in interest rates and in exchange rates affect the debt. As for the debt administered by the Caisse Autonome d'Amortissement (CAA), information is now available regarding the drawings made as of December 31, 1982. The situation is less satisfactory as regards the debt which is guaranteed but not administered by the CAA, and the Government will promulgate before April 15, 1983 a decree designed to tighten the screening of requests for guarantees and improve the monitoring of drawings and administration of that debt.

8. An essential component of the financial program is mobilization of the profits of the Caisse de Stabilisation (CSSPPA) and government income from petroleum production. In 1983 the CSSPPA will pay CFAF 55 billion to the CAA at a rate of CFAF 5 billion per month beginning in February. This amount is based on conservative projections of coffee and cocoa prices; if these prove to be higher, the CSSPPA will pass on all additional income to the CAA and the Treasury. As taxes are already high in Ivory Coast, the fiscal effort will be mainly devoted to improving collections. New taxes will raise only CFAF 3 billion in 1983.

9. In order to decrease operating expenses and expenditure on transfers, the Government has taken a number of steps which should result in savings of some CFAF 36 billion, or 1.3 per cent of GDP, in 1983. The first of these relates to personnel expenditure. The estimated saving (CFAF 14 billion) will be effected by: striking from the payroll all personnel who are improperly included therein, the retirement of civil servants at the age of 55, freezing all financial gains resulting from promotions, reducing staffing under bilateral technical assistance and at the CNOU, and cutting the number of daily workers. An additional saving of approximately CFAF 15 billion will be made possible by changes in the civil service housing system.

10. Second, the number of scholarships will be sharply reduced in the coming academic year; this will result in an anticipated saving of only CFAF 1 billion in 1983 but of over CFAF 3 billion in 1984. In technical and higher education, the distribution of scholarships by area of study will be dependent on employment possibilities, allowing a better adaptation of the educational system to the needs of the economy, with the assistance of the Human Resources Commission. The results of these measures, and the changes in civil service employment figures, will be examined when the program is reviewed in July 1983.

11. Third, PALMINDUSTRIE's deficit will be eliminated by increasing the sale price for vegetable oils to local processors. For palm oil, the price will rise from some CFAF 120 per kilo at present to CFAF 175 in March 1983 and CFAF 195 in the following few months. The sale price for cotton seed to oil producers will be increased at the same rate. As a result of these increases, transfers should drop by about CFAF 5 billion in 1983.

12. The new refinery of the Société Ivoirienne de Raffinage (SIR) has increased the company's processing capacity to around 3.6 million tons, i.e., twice the needs of Ivory Coast and the area it supplies. If no profitable use can be found for such excess capacity, the old refinery could be shut down in order to reduce expenses. SIR's annual deficit is estimated at CFAF 30 billion, largely due to its medium-term debt service. The deficit is now covered by transfers from a compensatory fund. SIR has been advised that such transfers will be eliminated in 1985, at which time it should have a balanced budget.

13. A program is in progress to restructure six other public sector enterprises (RAN, SODESUCRE, SATMACI, MOTORAGRI, SODEPRA, and SODEFOR) with technical assistance from the World Bank (under structural adjustment lending and public sector enterprise loans) and the Caisse Centrale de Coopération Economique (CCCE). During the July review the authorities will examine, together with Fund staff, the measures they expect to adopt to increase the profitability of these enterprises and the steps they expect to take as regards SIR.

14. The program calls for stabilization of public investment in 1983, following the severe contraction in the preceding two years. In order to keep capital expenditure in balance, the authorities have been compelled to postpone a large number of major projects to which they attached great importance.

15. In order to balance the government deficit, Ivory Coast borrowed CFAF 100 billion in 1981 and CFAF 125 billion in 1982 on the international capital market. In 1983 the authorities do not expect to resort to any nonproject borrowings before consulting the Fund during the July 1983 review; they feel free, however, to make use of the entire equivalent of currency purchased from the International Monetary Fund under the extended