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To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 89/69

The following correction has been made in the final minutes of EBM/89/69 (6/2/89):

Page 36, para. No. 4, lines 3 and 4: for "(EBS/89/83, 4/29/89)," read "(EBS/89/82, 4/24/89),"

A corrected page is attached.

Att: (1)

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Department Heads

best chance of success. A higher level of economic growth should help the private sector to develop, increase government revenue, and also enable the Government to reduce the fiscal deficit. The Comorian authorities agreed that a comprehensive adjustment program was needed to achieve the objectives of further economic growth and a stronger internal and external position. Accordingly, they had been working on the adjustment program that they intended to submit to the Fund for financial support. As already indicated by the staff, a Comorian delegation would be visiting headquarters in the week ahead to negotiate a structural adjustment facility program with the Fund. It was the hope of the authorities that the Fund would give full consideration to the particular conditions of the Comoros during those negotiations, which they trusted would be successfully completed.

The Acting Chairman made the following summing up:

Directors were in broad agreement with the thrust of the staff appraisal. They voiced concern over the slowdown in economic growth and the prevailing financial imbalances, and noted the unsustainable current budget deficit, the accumulation of domestic and external payments arrears, and the weak medium-term balance of payments outlook. Against that background, Directors welcomed the authorities' intention to formulate a comprehensive structural adjustment program to address the Comoros's serious economic and financial problems.

Directors stressed the need for a significant improvement in the public finances, including a reduction in the budgetary deficit. While commending the authorities for their efforts to strengthen revenue performance, Directors indicated that a nonnegligible part of the required budgetary adjustment would necessarily have to be borne by the wage and salary bill. At the same time, the sharp erosion in public service salaries and the need to better remunerate qualified personnel implied the need for a retrenchment in public employment, although the difficulties of reducing public employment were recognized.

Directors remarked that a broad range of structural measures needed to be developed and implemented as a matter of urgency with Fund and Bank assistance, to improve allocative efficiency and stimulate domestic economic activity. It was recognized also that it would be desirable to undertake appropriate actions to cushion the impact of certain adjustment measures on the less favored sections of the population. While recognizing existing physical and geographical constraints, Directors urged the authorities to proceed quickly with measures aimed at improving the competitiveness of the export sector, diversifying production, bolstering the productivity of investment, and training the labor force.

Directors welcomed the planned removal of the Stabilization Fund levies on exports and the abolition of the Stabilization Fund as well as the intention to raise the official producer price of vanilla. They encouraged the authorities to accompany these steps by a phased elimination of export taxes and a liberalization of vanilla exports. Directors also welcomed the reduction in rice prices.

Recognizing the impact of such actions on government revenues, Directors underscored the importance of improving the yield from import taxes by means of a comprehensive tariff reform to be embarked upon later in 1989.

Directors stressed that projects under the public investment program should be chosen on the basis of careful evaluation and welcomed the World Bank's involvement in this area. They also urged the authorities to accelerate the process of reform in the public enterprise sector and of the elimination of monopolies.

The authorities were urged to complement their planned structural and budgetary policies by pursuing an appropriately prudent monetary policy. It was suggested that greater flexibility in interest rate and exchange rate policy might also very well be needed.

Directors considered that a strong and comprehensive program was urgently needed to restore confidence and attract the necessary international concessional financial assistance to support renewed and sustained economic growth over the medium term. Such a program would also help the authorities address the serious problem of domestic and external payments arrears through appropriate arrangements with creditors.

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

4. SAO TOME AND PRINCIPE - STRUCTURAL ADJUSTMENT ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered a staff paper on a request by Sao Tome and Principe for a three-year arrangement under the structural adjustment facility and the first annual arrangement thereunder (EBS/89/82, 4/24/89), together with an economic and financial policy framework paper for the period 1989-91 (EBD/89/118, 4/24/89).

The Executive Directors also had before them the following statement by the Managing Director:

There follows for the information of the Executive Directors the text of a memorandum that I have received from the President