FILES

NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 70/1

10:00 a.m., January 12, 1970

P.-P. Schweitzer, Chairman

Executive Directors	Alternate Executive Directors
	S. Jónsson
W. B. Dale	J. S. Hooker
	A. Pipino, Temporary
R. Johnstone	
	B. Jensen, Temporary
	M. A. Merican
P. Lieftinck	T. de Vries
	S. S. Marathe
	G. Huntrods
	C. Bustelo
	M. A. Sandoval
	B. de Maulde
	A. Mansour
	D. Frommel, Temporary
J. O. Stone	G. P. C. de Kock
	S. Hattori
B. Tann	
A. van Campenhout	J. Roelandts
L. A. Williams	M. P. Omwony
A. W. Yaméogo	L. M. Rajaobelina

W. L. Hebbard, Secretary
J. A. Kay, Assistant

Also Present

African Department: M. Touré, Director; C. L. Merwin, Deputy Director; J. Waïtzenegger, Deputy Director; E. A. Arowolo, E. L. Bornemann, R. O. Carstens, F. d'A. Collings, L. Dini, M. G. C. Fiator, J. W. Kratz, K. Kwateng, E. K. Martey, M. V. Rao, N. N. Saliba, P. J. van de Ven, L. A. Wohlgemuth. Exchange and Trade Relations Department: E. Sturc, Director; H. Kizilyalli, T. Sweeney. Fiscal Affairs Department: E. A. Conrad. Legal Department: J. Gold, General Counsel and Director; J. G. Evans, P. R. Lachman. Research Department: F. Hirsch. Secretary's Department: R. V. Anderson, Deputy Secretary and Chief Editor. Treasurer's Department: D. S. Cutler, R. J. Familton, A. Watkins. Information Office: J. H. Reid, Chief Information Officer. Personal Assistant to the Managing Director: L. F. T. Smith. Technical Assistants to Executive Directors: H. Bobadilla, J. M. Chona, J. Skutle, P. Stek, N. Tsukagoshi, J. R. Vallet.

1. APPROVAL OF MINUTES

The draft minutes of Meetings 69/102, 69/103, 69/104, 69/105, 69/106, 69/107, and 69/108 were approved.

2. CHAD - PURCHASE TRANSACTION

The Executive Directors discussed a request from Chad for a purchase equivalent to US$3.775 million (EBS/69/352, Sup. 1, 1/8/70), together with the staff analysis and recommendation contained in EBS/69/352 (12/30/69). The Directors also had before them a paper on recent economic developments in Chad (SM/69/187, 12/24/69, and Cor. 1, 1/8/70).

Mr. Yaméogo made the following statement:

> The two staff papers on Chad's request for drawing along with the Minister of Finance's letter of intent clearly underline the considerable difficulties faced by Chad in its struggle for development. These are mainly of a structural nature: remoteness from the sea, insufficient transport facilities, limited natural resources and, above all, heavy dependence on a single export product: cotton.
>
> These obstacles have been aggravated by recent developments such as the emergence of insecurity in the countryside and difficulties in the marketing of an exceptionally abundant cotton crop in 1968/69. These developments have added to an already uneasy budget situation and have led to a marked deterioration of the external position of the country whose reserves declined to a presently negative figure of $10 million.
>
> Confronted with such problems, the Chad Government is firmly determined to take all necessary actions to overcome its present difficulties. With the help of the French Government, a thorough administrative reform is under way while efforts are being made to restore internal security as soon as possible. The most immediate task, however, lies in the budgetary field. The measures the Government intends to apply are clearly indicated in the letter of intent of the Minister of Finance: strict limitations of the 1970 expenditures to a level slightly lower than that of 1969, strengthening of expenditures control and of tax collection machinery, preparation of a reform of the tax structure with a possible technical assistance from the Fund and orderly elimination of payments arrears. Moreover, the Government is determined to take such measures as may be necessary to achieve its goals.

On the monetary side, the restrictive policy already applied by the BCEAEC will be pursued. Thus, it appears, as the staff indicates, that the balance of payments equilibrium for 1970 can be realized.

The nature of the difficulties encountered by Chad and the intentions expressed by the Government well justify the present request in the light of our present policy on use of Fund resources and I have no hesitation to recommend its approval by the Board.

Mr. de Maulde said that he believed it to be quite appropriate for the Government of Chad to approach the Fund at the present stage in the development of the country's economy. He referred in particular to paragraph 6 of the letter from the Minister of the Economy, Finance and Transportation in which he had stated that "the Government envisages asking for technical assistance from the Fund." If the Fund were to agree to the request for a purchase, the relations with Chad would be an excellent illustration of how the Fund could render both financial assistance and technical assistance to a member at the same time.

The letter from the Minister of Finance, Mr. de Maulde continued, gave an excellent summary of economic developments in Chad in recent years, of the very serious financial problems which the authorities were facing, and of the main features of the financial program. The measures and assurances contained in the Minister's letter fully met the requirements for drawings in the first credit tranche, and offered good prospects for an early restoration of both internal and external equilibrium.

The commitment to introduce a strictly balanced budget for 1970 was a very courageous one, Mr. de Maulde considered; nevertheless, in the present circumstances it was one which should be strictly adhered to. The intention of the Chadian authorities to intensify their efforts to improve the existing budget procedures and to strengthen the tax collection machinery was welcome. Furthermore, he was pleased to note that the authorities intended to eliminate the regrettable practice of delaying payments for goods and services, and that they contemplated an orderly settlement of outstanding obligations. He noted with satisfaction that the restrictions on bank credit introduced at the end of 1968 would be maintained, that the counterpart in local currency of the gold tranche would be allocated to the Cotton Price Stabilization Fund, while the counterpart of the first credit tranche would be sterilized, and that the authorities had committed themselves to take any further measures that might become appropriate to achieve their balance of payments aims.

Mr. de Maulde recalled that at the time of the discussion by the Board of the report on the 1967 Article XIV consultation with Chad (EBM/69/3, 1/15/69) he had pointed out that the economy of the country had a very narrow base because of the isolation, climate, and limited physical resources. It was therefore clear that, in view of the present short-term difficulties referred to by Mr. Yaméogo, assistance by the Fund would represent a most helpful contribution to the success of the stabilization program. He strongly supported the request by Chad and wished the authorities well.

Mr. Dale remarked that the efforts of the Chadian authorities to develop their economy were attended by considerable difficulties. In the short term the main problem seemed to be the deficit which had appeared in the budget during recent years. The country's Treasury resources were now exhausted and there appeared to be no alternative to the program of fiscal retrenchment which the authorities had undertaken, and which was referred to in the letter of intent. In addition, the program of credit restraint for Chad established by the BCEAEC should assist in re-establishing equilibrium. In those circumstances, recourse to the Fund appeared warranted and he supported the proposed decision.

Mr. Lieftinck commented that the staff paper had convinced him that there was a good case for Fund assistance. The request did not go beyond the first credit tranche, and the measures undertaken by the authorities constituted a reasonable effort to improve the country's balance of payments position. He was therefore pleased to give his full support to the proposed drawing.

Continuing, Mr. Lieftinck observed that cotton was the main earner of both internal revenue and foreign exchange; the efforts to reduce the cost of cotton were therefore of strategic importance to the country. The progress so far made had not been up to expectations, and the authorities should persist in their efforts to lower the cost of cotton. As some two thirds of Chad's cotton was sold in France, the devaluation of the CFA franc would not help very greatly to improve the competitive position. At the same time, the cost of many inputs required by the cotton industry had increased as a result of devaluation, and the net beneficial effect of devaluation might therefore be lower than the 4 per cent or 5 per cent mentioned by the staff.

Mr. Lieftinck considered that the measures taken to deal with the fiscal situation had been reasonable, but there was still considerable uncertainty, especially with respect to the foreign subsidy for the Cotton Price Stabilization Fund, as was clear from the passage regarding the second Yaoundé Convention on page 16 of SM/69/187. He wished, therefore, to inquire whether the Chadian authorities, in preparing their fiscal projections for 1970, had entered an item for a subsidy under that Convention, and what the likelihood was of such a subsidy actually becoming available. Also, in connection with the 1970 budget, it seemed to him that the authorities were working out a program for the orderly liquidation of unpaid arrears amounting to over CFAF 1,000 million, but that there was no item to cover those arrears in the 1970 budget. Therefore, as he understood the situation, even if the 1970 budget program were successfully executed, uncertainties connected with the foreign subsidy and with the payment of arrears would still exist.

In conclusion, Mr. Lieftinck asked whether it would be possible to have further information regarding certain difficulties with tax collection and security problems mentioned by the staff.

Mr. Williams expressed his support for the request by Chad. The country was clearly facing great difficulties and it was not particularly well endowed with resources. He had been much impressed by the measures which the Minister of Finance had outlined in the letter of intent, and he wished the Chadian authorities well in their endeavors.

The staff representative from the African Department replied to questions raised by the Executive Directors. In the first place, it was admittedly difficult to assess at this time the final effect of the devaluation of the CFA franc on Chad's cotton production, but on the basis of available information the staff did not think that a total net benefit of between 4 per cent and 5 per cent was on the high side. It was true that two thirds of the exports of cotton went to France, but the cotton price in France was basically the same as the world market price. That price had therefore increased, although not yet to the full extent of the devaluation because of the time lag arising from the fact that most cotton contracts were on a forward basis. Nevertheless, the return to Chad's cotton would gradually rise.

With respect to the Second Yaoundé Convention, the staff representative from the African Department agreed that there was no specific provision in the Convention to help associated countries in their difficult task of bringing production prices down to the world market level. It was difficult to say at this point what would be the policy of the EEC in this respect because the Convention was only likely to be ratified by all the participants sometime in mid-1970 at the earliest. In any event, the Chadian authorities had made no allowance for any receipts from the EEC Development Fund under the Second Convention in their 1970 budget. Nevertheless, as the staff had shown in Table 3 of SM/69/187, there was some backlog of funds still to be received by Chad from the EEC under the First Convention. While the actual settlement and determination of the final accounts took a considerable time, the Chadian authorities were hopeful of reaching agreement shortly, and thus of obtaining the release of those funds for financing in 1970.

The Chadian authorities were very much aware of the problem of unpaid bills, the staff representative from the African Department observed. They were in the process of working out a specific program and getting together with the main suppliers in the hope of reaching agreement on an orderly system of repayment. No other information was yet available.

There were two main difficulties regarding tax collection, the staff representative from the African Department explained. The first was the consequence of Chad's decision to leave the Central African Customs and Economic Union (UDEAC), which meant that effective January 1, 1969 the Chadian authorities had to collect custom duties and fiscal taxes at their own borders, whereas previously tax collection had taken place at the port of entry. In the early stages, a sufficiently effective corps of tax collectors on the borders had not been available, but that problem was now coming under control. The second difficulty related to the security situation. Some problems had arisen in connection with the collection of the head tax and the livestock tax, particularly in the northern and central parts of the country--the stock breeding areas--and the Government had found increasing difficulty in collecting these taxes. That was one reason why the authorities were considering moving away from direct taxation to a less direct system, which might help in the solution of the present security problem in the parts of the country concerned.

Mr. Yaméogo commented that Directors would not wish him to enlarge on the security situation, which had been the subject of many press reports. The Chadian authorities were relatively optimistic regarding the possibility of receiving a special subsidy from the EEC, which was well aware that Chad was facing a particularly difficult situation.

Mr. Yaméogo thanked the Chairman and the Board for the attention given to the request from Chad, because it was the first occasion on which an Operations Account country was to have access to the Fund's resources. The action by the Board would increase the feeling that the Fund was useful as a source both of technical assistance and of financial assistance, even to countries whose currencies were guaranteed by the issuer of a major currency. He would convey to his authorities the consensus of all the Directors who had spoken.

The Executive Directors turned to the decision, which was approved with the insertion of the date "January 7, 1970."

The decision was:

> The Government of Chad has submitted a request for a purchase from the Fund equivalent to $3.775 million. In connection with this request, the Minister of Economy, Finance and Transport of

Chad has sent a letter to the Fund setting forth the Government's economic and financial policies and intentions. The Fund takes note of the letter and, accordingly, agrees to the requested purchase and grants any necessary waiver of the conditions of Article V, Section 3(a)(iii) of the Articles of Agreement on the repurchase terms set forth in the cable from Chad dated January 7, 1970 (EBS/69/352 and Sup. 1).

Decision No. 2924-(70/1), adopted
January 12, 1970

3. ZAMBIA - 1969 ARTICLE XIV CONSULTATION

The Executive Directors considered the staff report on the 1969 Article XIV consultation with Zambia and the proposed decision (SM/69/169, 11/18/69).

The staff representative from the African Department mentioned three significant economic developments in Zambia since the staff consultation mission had taken place. First, full agreement had been reached on the terms of the Government's acquisition of 51 per cent of the equity in the copper mining companies operating in Zambia. The agreement had come into force on January 1, 1970. Second, as a consequence of the agreement, the coverage of the restriction on remittances of profits and dividends, for which a temporary extension of Board approval was sought in the proposed decision, had been reduced to small proportions. Third, during the second half of 1969, copper prices had continued to rise above the level reported by the staff. During the third quarter of 1969, the London Metal Exchange price for copper had been nearly 25 per cent above the 1968 level. Mainly as a consequence, the Bank of Zambia's gold and foreign exchange reserves rose by 23.4 per cent over the period, reaching $185.9 million at the end of the year.

Mr. Williams made the following statement:

On behalf of the Zambian authorities and myself I would like to thank the staff for producing an excellent Article XIV report on Zambia. The Zambian authorities find the report most comprehensive, the analysis objective and the report extremely useful to them in reviewing past policies and in formulating new ones.

As the authorities are in general agreement with the staff appraisal, I will confine myself to a few comments on recent economic trends in Zambia.

In the monetary sector the commercial banks, acting on the assumption that lending to state-owned or state-controlled enterprises carries less risk, are actively competing among themselves to lend to these enterprises. As a result, the commercial banks have become less liquid. Aware of the implications this development has for monetary policy the central bank is studying the situation. If necessary the central bank intends to use all its available monetary instruments to ensure that its control of bank credit is not weakened.

With respect to the current revenue position due to the higher than expected copper prices that were realized during 1969, the current budget surplus will be larger than was estimated. The provisions of the 1970 budget which are to be debated in Parliament this month indicate that there will be a small increase of budgetary expenditures in 1970 but that the budget will be less tight than the 1969 budget. Owing to the high level of public expenditures over the past three years and the high degree of liquidity in the economy the authorities are mindful of the inflationary potential of the situation. To assist in restraining consumption expenditures the rates of indirect taxes levied on certain locally produced and imported luxury goods may be increased.

The authorities are likewise concerned about the level of prices and its implications for wages. Following the announced freeze of wages in August 1969, state-owned consumer trading stores reduced the prices of a number of basic goods. The authorities hope that this will encourage other retailers in the private sector not to push up prices as it is generally believed that the cost increases arising from UDI due to transportation difficulties should have by now worked through the economy. A report prepared for the Government by Professor Turner of Cambridge University on wages and incomes policy in Zambia has been recently published. Arising out of the report, the President of the Republic of Zambia has recently stated that all wage increases for 1970 will be limited to 5 per cent and the need for increased productivity in all sectors of the economy was stressed.

Based on the latest data available, foreign exchange reserves for 1969 reached a figure of K 235 million which represents a 60 per cent increase over the 1968 figure, the rise in reserves being primarily due to the high copper prices which prevailed in 1969. Following the government announcement in August of 1969 regarding its intention to obtain a 51 per cent share in the copper industry, negotiations were begun between the government and the industry in the latter part of last year. The negotiations were recently concluded on terms mutually satisfactory to both the copper companies and the government. The smoothness and speed with which the negotiations were carried on have considerably helped to enhance the confidence of foreign investors who continue to show interest in the country.

The Zambian authorities are appreciative of the understanding shown by the Fund when due to balance of payments reasons temporary restrictions on certain current payments were imposed in 1968. As a result of widening the definition of "Zambian" companies to include companies with a simple majority of Zambian participation, the restrictions as from January 1, 1970 no longer apply to copper companies. From August of 1969 the restrictions also ceased to apply to a number of state-controlled enterprises. Since the number of companies to which the restrictions no longer apply account for more than 80 per cent of the companies that had been affected by the restrictions, only a relatively small number of companies are still subject to them. The Government in keeping with its stated intention at the time of the consultation discussions will be completely removing the restrictions that had been imposed as part of its budgetary measures.

There are still serious bottlenecks to be overcome in Zambia, particularly in transportation. The authorities expect that the building of the railway linking Zambia with Tanzania will considerably ease the transportation bottleneck. Given the shortage of trained manpower the authorities are also concentrating on improving and expanding educational facilities, for example, during the present plan period 1966-1970 the number of secondary school places provided has been trebled. In the new Development Plan which is currently being prepared, a high priority will be attached to agriculture. To be included in the Plan is a comprehensive program for agricultural and rural development.

The authorities are grateful for the assistance and cooperation received from the Fund in the past and look forward to continued cooperation in the future.

Mr. Johnstone remarked that Zambia had passed through some severe difficulties in recent years in successfully launching its development program; it had nevertheless shown a very marked degree of resilience. So far as the report itself was concerned, he broadly agreed with the tone and the emphasis of the staff's appraisal. He noted that the staff in its comment did not call for any violent adjustment of fiscal or monetary policy, although there was a very well-justified note of caution on the monetary side to the effect that the situation should be kept under review and that, if it appeared necessary and appropriate, credit restrictions might be reinstituted. On the fiscal side, the staff had remarked that the strength of the present and prospective position was related to the very high level of copper prices in the world market; he was therefore glad to read that the Zambian authorities were very well aware of the possible implications for the economy as a whole of some reduction in the world price of copper. Nevertheless, he had the impression that the staff felt no real concern with respect to what might be called Fund problems in the narrow sense.

The difficulties facing Zambia were, quite naturally, in the broader field of development policy, Mr. Johnstone noted. Reverting to the current very high price of copper in the world market, he understood that Zambia was now among the highest-cost copper producers in the world, due at least in part to difficulties of fuel supplies, transportation, and certain recent wage increases. He was therefore wondering to what extent the increases in the per-ton cost of copper production in Zambia were temporary and reversible. Transportation was expected to improve and he inquired whether that was likely to assist in reducing the effective market cost of Zambian copper. He also noted that there was some hope that new refining processes would reduce the cost of at least part of the Zambian copper output. Nevertheless, it might be worth considering whether there was not a danger in the policy of bringing into production some marginal ore bodies which had not so far been exploited. He would be grateful if Mr. Williams or the staff would comment on the likelihood of at least some parts of the Zambian copper industry pricing itself out of the world market.

With respect to agriculture, Mr. Johnstone agreed with the staff on the very great importance of consistent and carefully thought out improvements. Some 75 per cent of the population of Zambia was directly dependent on agriculture, which produced only one tenth of recorded GDP. It was therefore essential that a more rapid advance in the agricultural sector should be fostered within the context of the full development plan. He therefore welcomed very greatly Mr. Williams' statement to the effect that in the new Development Plan a very high priority would be attached to agriculture, and that the Plan would include a comprehensive program for agricultural and rural development. Naturally, he welcomed the fact that the remaining restrictions on transfers from Zambia had been further reduced.

In conclusion, Mr. Johnstone reiterated a request which he had made during the recent discussion by the Board of consultation procedures (EBM/69/102, 10/27/69). At that time he had suggested that it would be useful to Executive Directors and others interested in the reports by the Fund staff if, when those reports were circulated, a list of relevant documents--particularly IBRD documents--might be included, so that Directors might have those documents in mind when discussing the Fund reports on developments in particular countries. It would be appropriate and useful if those documents were listed for Directors in connection with the circulation of Fund documents.

Mr. Huntrods considered that the progress of the Zambian economy in the roughly two years since Directors had last studied it in depth had been generally satisfactory. Real growth had been around 7 per cent in 1968, and there was an indication that a similar rate of growth had been achieved in 1969. The continued strength of the world demand for copper had quite clearly been a major factor, but, on the other side, there had of course continued to be adverse, although greatly diminished, factors in the transport and supply situation.

It was clear from Mr. Williams' statement, Mr. Huntrods continued, that not only were the Zambian authorities fully in agreement with the views expressed by the staff, they were also fully mindful of the need for caution in relation to possible danger areas in fiscal, monetary, and incomes policies. Despite efforts toward diversification, the copper industry would obviously continue to dominate the economy of Zambia for some time to come. It was therefore a matter for congratulation that the authorities had managed to reach a settlement with the copper mining companies so rapidly following Zambianization, and also that the exchange control restrictions imposed on the mining companies had been lifted.

Mr. Huntrods wished to endorse the staff comments in the appraisal and to agree with Mr. Johnstone on the importance of keeping down mining production costs, especially in the light of the Government's decision to encourage some of the marginal mines to expand production.

Mr. Frommel remarked that, according to press reports, some of the problems raised by the Zambian Government's partial nationalization of the mining industry had not yet been settled, and labor problems might perhaps impair a continued upswing in output. His main concern, however, was with the fact that Zambia had moved into the ranks of the highest cost producers of copper. While the continuing buoyancy in copper prices was, naturally, good news for Zambia, he wondered whether the wage freeze announced in August 1969 would suffice to avoid further cost increases. He could not but underline the staff's emphasis on the close relationship between an overall incomes policy and further development of the copper industry.

As in many developing countries, Mr. Frommel noted, the gap between urban and rural income had widened, with all the well-known consequences. The Government's intention markedly to increase agricultural investments under the new development program was therefore welcome. The effort to diversify the economy, both in agriculture and in industry, could perhaps be accelerated if there were more technical assistance in the project field. In that respect, he had reason to believe that capital aid that would otherwise have been forthcoming had been delayed for lack of projects. The improved performance of the public finances had made an appreciable contribution to the dampening down of the inflationary tendency that had recently been visible. The introduction of the Second Development Plan in 1971, with its greater emphasis on the expansion of agriculture, would, however, put a renewed strain on the capital budget, and the authorities should begin to make suitable provision for it in their fiscal and credit policy planning.

Mr. Frommel supported the proposed decision and extended his best wishes to the Zambian authorities.

Mr. Dale said that growth in Zambia had been at a good rate during the past two years despite the need to solve certain supply problems of a special kind. In considerable measure that performance, together with the relatively favorable short-term outlook, was due to the policies of the authorities. Nevertheless, while the forecast for copper demand and prices was still favorable, diversification of the economy deserved high priority. In that respect, emphasis on agriculture in the next Development Plan could be of substantial assistance. It would be important in the near future to follow policies that would abate somewhat price and monetary pressures, as well as wage pressures. In that respect, the more restrictive credit policy supported by the staff would surely be correct.

In the fiscal field, Mr. Dale continued, the completion of some capital projects, and a cutback in current outlays, should assist greatly in reducing inflationary pressures. The balance of payments outlook was quite satisfactory, due to high copper prices. The restrictions on remittances of profits and dividends by non-Zambian companies had been relaxed, primarily by the liberalization of the definition of companies, and their replacement by withholding taxes early in 1970 seemed desirable.

He supported the proposed decision and conveyed his good wishes to the Zambian authorities.

Mr. Yaméogo believed that, basically, the Zambian economy was very sound; it had a great diversity of potential in both the agricultural and industrial sectors. Furthermore, on the external side the current account plus the long-term capital account was in very good shape. He had one question: now that the survey of the railway from Zambia to the Indian Ocean had been completed, it would be interesting to know what effect the existence of the new route was considered likely to have on Zambian competitiveness for its export products. Finally, he congratulated the Zambian authorities for their success in reducing the budget deficit from K 112 million to K 8.7 million.

Mr. Lieftinck said that there was definitely a need for remedial action in Zambia with respect both to the budget situation and to the developments in the credit field. Although the Government had done well in tackling those two problems, he had some hesitation in giving unqualified support to the particular measures adopted in the credit field. Those measures had been somewhat crude. He referred in particular to the measures announced by President Kaunda at Mulungushi in April 1968, which had taken the form of restricting bank borrowing by non-Zambian enterprises, together with restrictions on remittances of profits and dividends. While there had been a considerable relaxation with the introduction of a second set of measures in August 1969, even those were still rather crude. As he understood the situation, the Zambian authorities had followed the principle that a borrower's total indebtedness to local banks should not exceed his paid-up equity. The staff had commented that the result had been to place pressure upon a number of hitherto grossly undercapitalized foreign companies to plough back a larger part of their profits, hence reducing their credit requirements. While that might have been satisfactory from the standpoint of the Zambian authorities, the criterion for credit restriction they had used was not very refined or even appropriate. He hoped therefore that once the purpose of the Zambianization policies had been achieved, more refined measures could be devised to control credit and foreign transfers. With regard to the latter, he was prepared to accept the Fund's approval of the remaining restrictions, in the expectation that they would be further relaxed in the near future.

Similarly, in agriculture, Mr. Lieftinck believed that the restrictive credit measures had had a side effect which was not particularly appropriate. The restriction of credit to non-Zambian commercial farmers had resulted in a considerable shift in the pattern of agricultural production from maize and tobacco--but particularly maize--to cattle raising. He doubted whether that change represented a structural improvement since the Government was about to increase subsidies for maize production.

Mr. Lieftinck went on to mention that in the manufacturing sector, the Zambian authorities were trying to develop import substitution industries on a rather large scale. The manufacturing industries in Zambia were, however, already rather heavily protected by the high cost of moving imports from the coast and they were now to receive further protection by means of tariffs. He would therefore like to counsel some caution in bringing about radical shifts in the economic structure of the country by measures which might have unfavorable side effects in the long run. His comments did not minimize his appreciation for the anti-inflationary measures which the Government had introduced, nor for its intention to keep the country in balance.

The staff representative from the African Department answered the question by Mr. Johnstone as to whether the increase in the cost of copper production in Zambia was likely to be temporary. While it was difficult to make forecasts in matters of that sort, it was perhaps worth noting that the Zambian copper industry now had access to its own coal resources. The coal was of poor quality, but with the installation of washing facilities the quality should improve and the requirement for coal imports from neighboring Rhodesia would be reduced, with a definite decline in cost. New processes, such as TORCO, were also being brought into operation for processing very low grade ore, and they too should help in keeping production costs down. Furthermore, the Government had taken measures to stabilize wages, whose rise had been a major factor in the cost increases. In brief, it seemed likely that the cost of copper production in Zambia could be stabilized at the present level.

Regarding Mr. Yaméogo's question about the effect of the planned railway to Dar es Salaam on the competitiveness of Zambian industry, the staff representative from the African Department replied that little could be said until the actual cost of construction of the railway was known. That point was still under discussion, but it should be borne in mind that the decisions regarding the railway were perhaps more political than economic. At the time of the Fund mission the Zambian authorities had not known how much the railway would cost; neither had they worked out the cost of transporting exports from the copper belt to the Indian Ocean by the proposed railway compared with other forms of transportation then in use.

The Director of the Exchange and Trade Relations Department said that the staff was actively considering Mr. Johnstone's proposal that Executive Directors should be provided with selected bibliographies supporting the analysis in the staff papers, and that Mr. Johnstone would see the results in due course.

Mr. Williams remarked that, like the staff representative from the African Department, he had been unable to obtain any additional information regarding the planned railway. The whole undertaking was quite a substantial project, for which financing from a particular international source had been turned down because its feasibility was suspect. Zambia had undertaken to build the railway with Tanzania, and the sharing of the cost between the two countries might not be an easy matter to work out. The position reached was, as the staff report had said, that the survey had been completed; the next stage would probably be to finalize the formula for financing construction.

Regarding the cost of producing copper, Mr. Williams said that Directors might wish to bear in mind that the technical skill in the copper industry in Zambia was provided mainly by expatriates. As the Zambianization of the mines continued, the cost of production should fall off, since the labor cost was a very substantial element in the total cost of copper. Those Directors who had spoken on the subject of agriculture could be assured that the Zambian authorities were very much aware of the importance of that sector. There too, however, 90 per cent of the commercial farming was carried on by expatriates, which did not make for stability. The Zambian authorities were trying to persuade Zambians themselves to enter the agricultural field. They were formulating a very comprehensive program for that purpose which would be included in the next Development Plan.

Replying to Mr. Lieftinck, Mr. Williams observed that he did not consider the measures to which Mr. Lieftinck had taken exception to be particularly crude. Zambia was not the only country which had restrictions on the use of local savings by foreign firms. In his own country, for example, such borrowing was limited to 20 per cent of the paid-up equity of an enterprise.

In conclusion, Mr. Williams said that he greatly appreciated comments made by Directors, which he would pass to the Zambian authorities.

The Executive Directors turned to consider the proposed decision, which was approved with one minor amendment.

The decision was:

1. This decision is taken by the Executive Directors in concluding the 1969 consultation with Zambia pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. The Zambian economy has continued to grow at a satisfactory rate during the last two years. In 1968 gross domestic product is estimated to have risen by 11 per cent at current prices, and the indications are this rate of growth will be maintained in 1969 because of the good prospects of copper output and favorable world prices. Despite some improvement in the performance of the manufacturing and construction sectors the economy continues to be dependent on the copper industry. A diversification of the economy calls for a careful review of the agricultural policies and increased productive investments in agriculture.

3. Zambia's budgetary situation has deteriorated since 1966, and there were overall budget deficits in 1967 and 1968. These deficits which stemmed principally from increased capital investments, mainly for infrastructural projects, have tended to add to inflationary pressures in the economy. However, with a cutback in such expenditures and expected increases in revenues, the deficit should be substantially reduced in 1969.

4. The balance of payments position improved in 1968, following a small current deficit in 1967 when there was a sharp increase in imports of capital goods and raw materials for infrastructural projects and the fast-growing manufacturing sector. The improvement in 1968 is attributable to increased output and higher world prices for copper and this continued in 1969.

5. The rapid monetary expansion which characterized the period 1965-67 was halted in 1968 by the introduction of measures which restricted the amount of bank credit to companies not wholly-owned by Zambians. In 1969 this restriction has in effect been relaxed. In the circumstances, care should be exercised to avoid too rapid a credit expansion, and the situation should be kept under constant review.

6. In April 1968 Zambia introduced restrictions on the remittance of profits and dividends. The Fund did not object to the maintenance of these restrictions on a temporary basis. The Fund notes that the restrictions have recently been liberalized and are to be eliminated at the time of the 1970 budget. In the circumstances, the Fund does not object to the continued maintenance of these restrictions under April 30, 1970.

Decision No. 2925-(70/1), adopted
January 12, 1970

4. SPECIAL DRAWING ACCOUNT - DISSEMINATION OF INFORMATION

The Chairman made the following statement:

After the initial week, five business days, of operating the Special Drawing Account, I assumed that Executive Directors would be interested in developments so far. Participants have used a total of SDR 54,305,000. You are all aware, from the regular notices circulated on repurchases, that Costa Rica, the Dominican Republic and Pakistan have used a total of SDR 7,975,000 to make repurchases from the General Account. In addition, there will have been three transactions with designation completed through tomorrow. To accommodate the use of this amount of SDR, the following designations were made under the plan: The United States, SDR 23,330,000; Italy, SDR 9,000,000; Canada, SDR 5,000,000; Netherlands, SDR 5,000,000; and Japan, SDR 4,000,000; for a total of SDR 46,330,000.

As you will recall, we agreed that no press releases would be issued on the use of special drawing rights by participants at the time of each transaction. Until you have had an opportunity to discuss how information concerning special drawing rights transactions (other than with the General Account) should be handled within the Fund, as well as for outside publication, I would propose that I give a similar oral report either weekly or fortnightly at the first Board meeting in each period. The choice of the period would depend on the number of transactions.

How the information concerning transactions involving special drawing rights is handled within the Fund and by Directors and participants may have implications for any policy the Executive Directors may wish to adopt with respect to the information to be provided to participants and the public at large. Under our present Rules and Regulations each participant is to receive a confidential monthly summary statement of transactions under Article XXV, Section 2(a) and (b), and a statement of its balance. An unclassified as opposed to confidential quarterly summary statement of all operations and transactions and the positions of all participants is to be published. The staff will very shortly circulate a paper indicating how it would intend, subject to Board approval, to report holdings, operations and transactions in the tables in International Financial Statistics, as well as by monthly press releases, if you so wish.

Our practice to date has been for the Director elected or appointed by a participant using special drawing rights to receive a copy of the incoming cable initiating the transaction. For the time being, we would not propose to inform Directors of the details of each transaction or to circulate any paper from which details might be determined. If Directors wish, this might be an opportune time for a preliminary exchange of views, or these questions might be considered at the time the staff paper on IFS treatment is before you.

Mr. Stone indicated that he had intended to raise the question of the information to be provided to Directors on the use of SDR's before being aware that the Chairman intended to make a statement. While thanking the Chairman for that statement, he remarked that he had not observed in it any indication of the participants that had used SDR's, and he presumed that the omission was deliberate. Without wishing to anticipate the discussion which the Chairman had indicated would take place, it did seem to him that there was a desire on the part of at least one Director to have information of that kind and, indeed, he wondered whether it was entirely appropriate that it should be withheld from Directors. He would be interested to know whether any of his colleagues felt, as he did, an interest in knowing which participants had used SDR's at the present stage.

Mr. Johnstone said that, as he understood the Chairman's remarks, the Executive Director for the Country initiating the transaction was informed, but that the Executive Director for a designated country would not be informed as a routine matter at the time of the transaction. He would appreciate confirmation of his understanding.

The staff representative from the Treasurer's Department agreed that the procedure described by Mr. Johnstone had been that used in the first few days of operation. The Executive Directors concerned might of course see a copy of the communication that was sent to the fiscal agencies of the designated participants, but that would not necessarily indicate the user. The staff was still in the process of developing certain procedures, but insofar as only one currency was being used in transactions in the

Special Drawing Account, it was possible to communicate with the designated participants and to give them the necessary instructions without indicating the user. Unless a decision were taken to the contrary, that was the procedure that the staff intended to follow.

Mr. Johnstone thanked the staff representative for his reply, and indicated that he would reserve his comments on the whole situation for later.

Mr. Lieftinck said that he felt rather strongly that the Executive Director should receive a copy of the communication sent to the authorities of the countries whose votes he cast. Whether that communication should indicate the user of the SDR's for which another country was being designated was a matter which should be discussed as part of the whole topic of information to be made available, either to individual Directors, or to the Board or to the public. He would therefore like to reserve his position on that point.

Mr. Dale did not wish to take a position until the staff paper was available for discussion. But he hoped that the paper would explain who--including which national authorities--necessarily came by the information as the transaction process unfolded, because that might be a consideration that Directors would wish to have in mind before coming to any decision that might be required.

Mr. van Campenhout also preferred to see the staff paper before taking a position. He was however very much inclined to agree with Mr. Lieftinck that communications to members should be available to the Executive Director elected or appointed by them. The point was particularly valid at the present time, because countries might not understand exactly what was required of them, particularly in the early stages.

Mr. Stone said that, like others, he did not wish to anticipate the future discussion. However, he did recall that at EBM/69/118 (12/10/69) after considerable debate, general agreement had been reached that a participant which had been designated should not be automatically excluded from the designation list if that participant were to use its SDR's during a period, but that the matter should be left to the participant itself, the Managing Director or any Executive Director to raise before the Board, if they thought fit. The first question that he would raise was how, in the absence of any information to the Executive Directors on designated transactions, or indeed any other transactions under Article XXV, Section 2, it would be possible to give effect to that understanding. Second, he would state the belief that Executive Directors in the execution of their functions should be entitled to obtain any information of the kind they were discussing which was pertinent to bringing a proper judgment to bear upon the operations of the Fund. That basic question had arisen very early in the history of the Fund. He had had occasion recently, in another context, to look into that history in some detail, and very interesting it was. The outcome of the discussions which had taken place at that time had been to affirm the basic view which he had just stated regarding Executive Directors' access to information within the Fund. It was indeed in the light of that position that he had expressed certain views on the details of transactions in the Special Drawing Account. Details of those transactions should be made available to Executive Directors after they had taken place, for example on the value date, purely for information, in just the same way as Executive Directors now received information in relation to gold tranche purchases.

Mr. Stone repeated that he was prepared to await the discussion that the Chairman had foreshadowed; however, prior to that discussion there were two possibilities. One was to follow the course suggested by the Chairman, whereby the Chairman would report to the Board every week. If the Board decided to follow a different course after discussing the matter in detail, that different course would be followed. The other possibility was that Executive Directors should be informed of the transactions in the manner he had suggested until such time as the Executive Directors came to discuss the matter in full. He, himself, would prefer to follow the second course. In any event, he hoped that it would be agreed that, whatever course was adopted, the information provided should show not merely the parties designated but also the parties using SDR's.

The General Counsel said that he did not believe that the point at issue involved the right of Executive Directors to information in the Fund. The real issue was whether the Executive Directors as a body wished or did not wish to exercise some self-restraint in the interest of the smooth working of the Special Drawing Account and the designation plan. In the course of the drafting of the Articles, and again during the drafting of the Rules, views had been expressed that making reasonably contemporaneous knowledge available to everybody regarding the two parties to each transaction might not be conducive to the best working of the plan. That view had not been generally shared, but the matter had not been resolved. For example, when Rule J-3 was being drafted there had been proposals to include language to the effect that Mr. Stone was now suggesting, but that had not been done. The matter was a difficult one, and the proper answer could perhaps only be found in relation to the working of the designation plan and of the Special Drawing Account. It did not involve the right of Executive Directors to have access to material in the possession of the Fund.

The Chairman remarked that in any event the monthly statements would provide Executive Directors with a full list of countries that had used drawing rights and a full list of the countries that had been designated. The question under discussion was therefore what information should be made available on a current basis, transaction by transaction. In those circumstances, he proposed to follow the procedure he had outlined until Directors had an opportunity to take a decision.

Mr. de Maulde agreed with the Chairman's approach, and said that he had found the General Counsel's remarks very illuminating. He would very much appreciate it if the staff paper were to deal with the advantages and disadvantages of the "glass house" approach compared with a system implying some greater restraint.

Mr. van Campenhout fully agreed with the procedure proposed by the Chairman. It was better to have some degree of restraint in the early stages.

The Executive Directors agreed to follow the procedure outlined by the Chairman.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/69/128 (12/31/69) and EBM/70/1 (1/12/70).

5. CHAD

(a) Provisional Rate of Exchange

The Government of Chad has proposed a provisional rate for the currency of Chad of CFAF 277.710 per U.S. dollar for the payment of the initial currency subscription of Chad. The Fund agrees to the proposal made by Chad. This provisional rate shall be used for all Fund computations involving the currency of Chad (EBS/69/350, 12/30/69).

Decision No. 2926-(70/1), adopted
December 31, 1969

(b) Exchange System

The Fund does not object to the application by Chad through December 31, 1970 of the existing restrictions on payments and transfers for current international transactions. The Fund will remain in contact with the authorities of Chad and review the measures during the next Article XIV consultation (SM/70/6, 1/6/70).

Decision No. 2927-(70/1), adopted
January 7, 1970

6. COLOMBIA - ADJUSTMENT OF FUND'S HOLDINGS OF PESOS

Pursuant to Article IV, Section 8(b)(ii) the Fund's holdings of Colombian pesos shall be provisionally adjusted in accordance with a rate of Colombian pesos 17.60 per U.S. dollar; the adjustment shall take effect on a date to be agreed with the Colombian authorities (EBS/69/347, 12/30/69).

Decision No. 2928-(70/1), adopted
December 31, 1969

7. CAMEROON - EXCHANGE SYSTEM

The Fund does not object to the application by Cameroon through December 31, 1970 of the existing restrictions on payments and transfers for current international transactions. The Fund will remain in contact with the authorities of Cameroon and review the measures during the next Article XIV consultation (SM/69/202, 12/30/69).

Decision No. 2929-(70/1), adopted
December 31, 1969

8. CENTRAL AFRICAN REPUBLIC - EXCHANGE SYSTEM

The Fund does not object to the application by the Central African Republic through December 31, 1970 of the existing multiple currency practice and the restriction on travel allowances. The Fund will remain in contact with the authorities of the Central African Republic and review the measures during the next Article XIV consultation (SM/70/7, 1/6/70).

Decision No. 2930-(70/1), adopted
January 7, 1970

9. CONGO (BRAZZAVILLE) - EXCHANGE SYSTEM

The Fund does not object to the application by Congo (Brazzaville) through December 31, 1970 of the existing restriction on travel allowances. The Fund will remain in contact with the authorities of Congo (Brazzaville) and review the measures during the next Article XIV consultation (SM/69/196, 12/30/69).

Decision No. 2931-(70/1), adopted
December 31, 1969

10. GABON - EXCHANGE SYSTEM

The Fund does not object to the application by Gabon through December 31, 1970 of the existing restriction on travel allowances. The Fund will remain in contact with the authorities of Gabon and review the measures during the next Article XIV consultation (SM/69/201, 12/30/69).

Decision No. 2932-(70/1), adopted
December 31, 1969

11. MALAGASY REPUBLIC - EXCHANGE SYSTEM

The Fund does not object to the application by the Malagasy Republic through December 31, 1970 of the existing restriction on travel allowances. The Fund will remain in contact with the authorities of the Malagasy Republic and review the measures during the next Article XIV consultation (SM/69/197, 12/30/69).

Decision No. 2933-(70/1), adopted
December 31, 1969

12. MALI - EXCHANGE SYSTEM

The Fund does not object to the application by Mali through December 31, 1970 of the existing restriction on travel allowances. The Fund will remain in contact with the authorities of Mali and review the measures during the next Article XIV consultation (SM/69/198, 12/30/69).

Decision No. 2934-(70/1), adopted
December 31, 1969

13. SUDAN - EXCHANGE SYSTEM

The Fund does not object to the Sudan maintaining on a temporary basis the multiple currency practice with respect to certain travel expenses as described in SM/70/2. The Fund will remain in consultation with the authorities of the Sudan and will review the measure during the next consultation.

Decision No. 2935-(70/1), adopted
January 7, 1970

14. UNITED KINGDOM - ARTICLE VIII - RESTRICTIONS ON CURRENT INTERNATIONAL PAYMENTS AND TRANSFERS IN GIBRALTAR

The Fund does not object to the application by Gibraltar through October 31, 1970 of the restrictions on payments and transfers for current international transactions mentioned in the memorandum to the Secretary dated December 24, 1969 from the Executive Director for the United Kingdom (SM/69/204, 12/31/69).

Decision No. 2936-(70/1), adopted
January 7, 1970

15. UPPER VOLTA - EXCHANGE SYSTEM

The Fund does not object to the application by Upper Volta through December 31, 1970 of the existing restriction on travel allowances. The Fund will remain in contact with the authorities of Upper Volta and review the measures during the next Article XIV consultation (SM/69/200, 12/30/69).

Decision No. 2937-(70/1), adopted
January 7, 1970

16. MALAYSIA - TECHNICAL ASSISTANCE

In response to a request from Malaysia for technical assistance, the Executive Board approves the proposal set forth in EBD/69/217 (12/29/69).

Adopted January 5, 1970

17. THAILAND - TECHNICAL ASSISTANCE

In response to a request from Thailand for technical assistance, the Executive Board approves the proposal set forth in EBD/69/218 (12/29/69).

Adopted December 31, 1969

18. BERNE UNION - EXTRAORDINARY GENERAL MEETING - FUND REPRESENTATION

The Executive Board approves Fund representation at the Extraordinary General Meeting of the Berne Union to be held in Vienna, as set forth in EBD/70/5 (1/7/70)

Adopted January 9, 1970

19. CIAT - AUTOMATED DATA PROCESSING WORKSHOP - FUND REPRESENTATION

The Executive Board approves Fund participation in a workshop on the use of automatic data processing in tax administration to be conducted by the Inter-American Center of Tax Administrators (CIAT) in Bogota, Colombia, as set forth in EBD/69/216 (12/29/69).

Adopted January 5, 1970

20. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/69/239, Sup. 1 (1/6/70), EBAP/69/248 (12/31/69), EBAP/69/249 (12/31/69), EBAP/70/1 (1/6/70), EBAP/70/2 (1/7/70), and EBAP/70/3 (1/8/70) is approved.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 70/17, March 2, 1970

PIERRE-PAUL SCHWEITZER
Chairman

W. LAWRENCE HEBBARD
Secretary